

الشرق الأوسط

Pandora's Box

The EU lives dangerously
Page 13



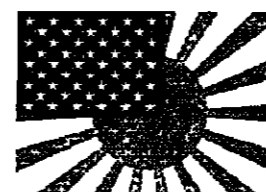
Inventing the future

Xerox's computer breeding ground
Page 8



Marketing drugs

Economists in the salesforce
Page 9



A modest proposal

Japan as the 51st state
Page 13

FINANCIAL TIMES

End to KwaZulu homeland urged by ANC deputy



African National Congress deputy secretary-general Jacob Zuma (left), the highest ranking Zulu in the ANC, has called on South Africa's multi-party Transitional Executive Council to take over the administration of the KwaZulu black "homeland" from Chief Mangosuthu Buthe, putting the ANC and the chief's Inkatha Freedom party on a collision course. The ANC represents a significant hardening of the organisation's position on KwaZulu, the only one of the 10 black homelands which continues to offer political opposition to the ANC. Page 14

Five Arabs killed in gun battle: The Israeli army killed four Palestinians, allegedly members of the Hamas Islamic resistance movement's military wing, during an 18-hour gun battle in Hebron. A pregnant Palestinian woman also died in the exchange of fire. Page 4

S Korean threat: South Korea issued a veiled warning that if North Korea staged an attack, Seoul would respond by invading the North to overthrow the government of President Kim Il-sung. Page 14

75 die in Siberian air crash: All 75 people on board a half-empty Russian A310 Airbus were killed when the airliner crashed overnight in the Siberian wilderness 2,000 miles east of Moscow, the second air disaster there this year. The airliner was flying from Moscow to Hong Kong. Page 14

Nordbanken, which the Swedish government rescued from collapse with a SKr51bn (£8.5bn) bail-out operation, announced a 1993 operating profit of SKr2.7bn, making it the country's most profitable bank last year. Page 15

UN convoy hijacked: Bosnian Serb soldiers hijacked a United Nations aid convoy headed for the Muslim enclave of Magaj and looted the contents of 10 trucks, a UN spokesman said. Page 15

Kingfisher Shares fell at the UK retailer in spite of better-than-expected results, reflecting disappointment over underlying performance in the UK. Pre-tax profits were 51 per cent up on last year at £309.2m. Page 15; Lex, Page 14

Crédit Lyonnais: French economy minister Edmond Alphandery will today finalise a rescue package to recapitalise the troubled banking group. Page 15

US secures GATT waiver over China: The US won a change in General Agreement on Tariffs and Trade rules allowing it to refuse GATT benefits to China even if Beijing succeeds in rejoining the world trade body this year. Page 6

Keating set for reshuffle: A wider than expected ministerial reshuffle in Australia's federal government was in prospect amid speculation that Senator Graham Richardson was about to resign from the health portfolio. Page 4

Clinton move on ship subsidies: The Clinton administration has agreed to throw its weight behind legislation now in Congress which would impose fines on new ships built in foreign subsidised shipyards entering US ports. Page 6

Jardine Matheson, one of Hong Kong's oldest trading conglomerates, announced a 23 per cent rise in net profits to US\$388.8m last year, up from \$318.8m in 1992. Page 18; Sunset in the east for Jardine's stock. Page 15

No agreement in Somali talks: The United Nations said Somali faction leaders failed to reach a concrete peace agreement and it would no longer sponsor their talks in Nairobi. Page 15

Signs of lost soldiers: Rescuers searching for five soldiers missing in dense jungle surrounding Mt Kinabalu in Sabah, Malaysia, discovered more finds of food remains and packaging. The party of two British and three Hong Kong soldiers was last seen almost four weeks ago. Page 15

Tapie to stay at Marseille: Marseille soccer chairman Bernard Tapie, under investigation for suspected bribery, won a court battle to remain at the helm of the European champions. Page 15

Giulietta Masina dies: Giulietta Masina, one of Italy's best-known actresses, died aged 73, less than five months after her husband, director Federico Fellini. Page 15

STOCK MARKET INDICES		STERLING	
FT-SE 100	3155.3 (-46.2)	New York lunchtime:	\$ 1.655
Yield	3.84	London:	\$ 1.655 (1.4982)
FT-SE Europe 100	1445.73 (-7.25)	DM	2.515 (2.5094)
FT-SE-Air Share	1597.2 (-1.2%)	FF	8.558 (8.5789)
Nikkei	19,022.1 (-291.43)	Sfr	2.1312 (2.125)
New York lunchtime:		Y	159.948 (157.545)
Dow Jones Ind. Ave.	3853.7 (+1.15)	E index	80.5 (80.3)
S&P Composite	468.15 (+0.33)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	3.1/4%	New York lunchtime:	DM 1.884
3-mo Treas. Bills	3.510%	London:	FF 5.7550
Long Bond	92 1/8	Sfr	1.428
Yield	5.824%	Y	108.475
LONDON MONEY		DM	1.885 (1.8885)
3-mo Interbank	5 1/8% (5 1/4%)	FF	5.752 (5.771)
Libor 3m gilt future	Mar 110 (Mar 105)	Sfr	1.427 (1.428)
NORTH SEA OIL (Aargus)		Y	106.430 (106.005)
Brent 15-day (May)	\$13.8 (14.0)	E index	80.2 (80.3)
Gold			
New York Comex (Apr)	\$387.4 (389.5)		
London	338.3 (339.25)	Tokyo close	Y 108.13

Africa	Scot	Greece	DG50	Lat	LP65	Qatar	QRT100
Algeria	Den1	Hong Kong	HS10	Lib	Lib100	Saudi	SP11
Belgium	Grav	Malay	FI15	Mex	Mex100	Singapore	SGA30
Bolivia	Lat	US	US100	Neth	Neth100	South Africa	SAF100
Cyprus	CY1	India	IND100	Nip	Nip100	Spain	SP100
Czech Rep	CZ100	Israel	ISL100	Norway	NOR100	Sweden	SW100
Denmark	Den100	Italy	ITA100	Oman	OM100	Switzerland	SWI100
Egypt	EY100	Japan	JPN100	Pakistan	PAK100	Syria	SYR100
Finland	FIN100	Jordan	JOR100	Philippines	PHI100	Turkey	TUR100
France	FR100	Nicaragua	NIC100	Poland	POL100	Ukraine	UKR100
Germany	GER100	Ukraine	UKR100	Portugal	POR100	USA	USA100

Major proposes two-tier EU voting system

By Philip Stephens and David Owen in London

Mr John Major, the UK prime minister, last night raised the possibility of a two-tier voting system in the European Union to break the present deadlock over voting rights when four new countries join next year.

Amid intensive diplomatic activity to end the stalemate which has pitted Britain and Spain against their 10 EU partners, Mr Major suggested that the present arrangements must remain for contentious issues

such as social policy legislation. But after a meeting with the prime minister, senior Conservative MPs said he appeared willing to allow an increase from the present 23 to 27 in the number of votes required to create a blocking majority in the Council of Ministers for other, less controversial issues.

Officials said Mr Major was studying carefully another potential compromise involving a legally binding protocol which would allow countries mustering between 23 and 27 votes in the Council to postpone decisions

indefinitely. The two-tier proposal would mean that 23 votes - representing two large countries and one small - would still be enough to block directives in areas such as employment policy, where Britain most fears an extension of EU authority. But the number would rise to 27 for other, less contentious areas of legislation.

Mr Major raised the possible compromise at a private lunch with senior Conservative backbench MPs at which he insisted that Britain would defend implacably the substance of its position

at this weekend's meeting of EU foreign ministers in Greece. The attraction of the suggestion was that it offered the hope of breaking the deadlock with Britain's European partners, while satisfying demands on the Tory backbenches that the British power to veto contentious legislation must not be diluted.

But Whitehall officials cautioned that there might be serious practical difficulties in deciding which directives would fall into which category in any two-tier system. The proposal might

also face strong opposition from other EU governments. In the light of that, Britain was still considering other possible compromises, including plans to relate the size of the blocking minority to a population threshold or to raise the number of votes required to 25.

The full cabinet is expected this morning to endorse a government's tough negotiating line after a report from Mr Douglas Hurd, foreign secretary, on the inconclusive meeting of the foreign affairs council in Brussels.

Mr Hurd, who has looked

uncomfortable with Britain's hardline stance, will then set the parameters for any possible compromise at the Conservative Central Council tomorrow, before flying to Athens for the meeting of EU foreign ministers.

Tom Burns in Madrid writes: Spain remained inpatient yesterday over its decision to share

Continued on Page 14

Solana takes heart, Page 2

What kind of Union, Page 2

Angry prime minister, Page 7

TV showdown, Page 7

Brink of breakdown, Page 13

Police seize papers at headquarters of Berlusconi party

By Robert Graham in Rome

The pent-up anger in the final stages of Italy's election campaign exploded yesterday when police seized documents from the headquarters of Mr Silvio Berlusconi's Forza Italia movement.

Media magnate Mr Berlusconi

fiercely attacked what he claimed was a politically orchestrated action against the movement's Rome and Milan offices.

Last night he was seeking a meeting with President Oscar Luigi Scalfaro to express his concern over the degeneration of the electoral contest, due to take place on Sunday.

But Forza Italia was able to claim the scalp of one of the leading figures in the former communist Party of the Democratic Left (PDS) which is spearheading the anti-Berlusconi campaign.

Mr Luciano Violante, head of the parliamentary anti-mafia commission, was forced to resign yesterday following the publication of an interview in which he alleged Mr Marcello Dell'Utri, a key member of Mr Berlusconi's entourage, was under investigation by Catania magistrates for arms and drugs trafficking.

Police moved into Forza Italia headquarters in Milan and Rome yesterday morning on the orders of magistrates from Palmi, near Reggio Calabria. For almost two years, the Palmi magistrature

had been investigating links between secret masonic lodges and organised crime, uncontrolled elements in the security services and political parties.

In this connection they said they had requested police to obtain a list of Forza Italia members and party candidates.

"This was totally without justification and involved no notification of any crime having been committed," Mr Berlusconi said.

He added: "This has never happened before in our democracy. These things only happen in totalitarian states. In a free country the electorate are those who judge the parties with their vote."

Some of his aides suggested he would even ask President Scalfaro to postpone the elections. It was the second time during the election campaign that he has complained to President Scalfaro of his unfair treatment by the opposition.

The magistrates in Palmi commented: "We do our job as magistrates: we don't get involved in politics." They explained that they ordered police to collect the information because it was not available at the Ministry of Interior.

Even if the timing of the police action was coincidental, it could win Mr Berlusconi some sympathy votes.

The conflict between the PDS-

led Progressive Alliance and the Berlusconi camp has been coming to a head for several days. The PDS has not forgiven Mr Berlusconi for his unashamed exploitation of his commercial television network to make Forza Italia a leading political player.

Mr Berlusconi meanwhile believes many institutions of state, including the magistrature, are sympathetic to the PDS and deliberately sabotaging Forza Italia.

The PDS has striven to undermine Mr Berlusconi's credibility as an entrepreneur and sympathetic magistrates have been leaking hints of investigations into mafia links with his Fininvest empire.

Mr Berlusconi compounded his problems by being slow to distance himself from suggestions that the mafia was backing Forza Italia.

But the PDS also sensed Mr Berlusconi was politically inept at handling criticism in public. As a result they have forced him away from his carefully scripted role as the seductive purveyor of good news.

Mr Violante, however, made a serious error in breaching judicial secrecy and revealing the state of investigations into Mr Dell'Utri, the head of Publitalia, the advertising arm of Fininvest, and the power behind Mr Berlusconi's bid for the presidency.

Kohl says door must be open to central Europe

By Quentin Peel in Bonn

Chancellor Helmut Kohl of Germany entered an already bruising debate over enlargement of the European Union yesterday by promising he would make strenuous efforts to further open the EU to the countries of central Europe when Germany takes over the presidency this year.

Implicitly attacking opposition to enlargement of the EU - dramatised recently in top-level French criticism of Germany's enthusiasm for the process - Mr Kohl insisted that "the Baltic Sea as just as much a European sea as the Mediterranean. It is quite simply intolerable for us to adopt the attitude that we want to create some sort of closed shop".

He rejected any attempt to turn the EU into a "fortified free trade area", insisting that enlargement must go hand in hand with closer integration and reinforcement of European institutions.

At the same time, he sharply criticised Britain and Spain for holding up the enlargement negotiations with Austria, Finland, Norway and Sweden over technical changes in the voting rules.

Mr Kohl, whose government will take over the EU presidency on July 1, suggested new moves to involve the four likely central European candidates for EU membership more closely in Union decisions.

One proposal would be to extend EU summit meetings to



German chancellor Helmut Kohl: Europe cannot be a closed shop

include the leaders of Poland, Hungary, the Czech Republic and Slovakia in a regular exchange of views on common problems. Their participation would ensure that EU decisions were not taken that would make their eventual membership more difficult.

A second idea would be to invite those countries - "in the near future" - to send deputies to the European parliament as non-voting members, in a consultative role.

Mr Kohl left no doubt that he sees extension of the EU to the east as a top priority and vital national interest for Germany. He said it was "unthinkable" that Germany's eastern border, the Oder-Neisse border with Poland, "should remain the eastern border of the European Union".

Only by simultaneously "deepening" the EU, while the enlargement process continues, could "peace and freedom" in Europe be assured, he said. "With a fortified free trade area we would never manage to achieve this in a lasting way."

He suggested that resistance to the proposed changes in voting rules in the EU council of ministers - simply to maintain the level of a qualified majority for decision-making at two-thirds of the votes - was simply a result of outdated nation-state mentality.

"I do not believe that by thinking in the categories of yesterday, we can solve the problems of the future," he said. As far as voting numbers were concerned, "we have long learned to think in terms of quality, not quantity".

Moscow committed to tough budget regime by IMF

By John Lloyd in Moscow

International Monetary Fund assistance to the Russian government will commit Moscow to tough budget discipline that could be difficult for the government to maintain.

The IMF, which expects to release a \$1.5bn loan soon, is banking on the ability of Mr Victor Chornomyrdin, the Russian prime minister, who has impressed IMF officials, but who will be under extreme political pressure in keeping Moscow's side of the bargain.

However, Mr Michel Camdessus, IMF director-general, reflected the Fund team's recognition that the Russian government is already running a very tight monetary policy, with real interest rates now standing at about 10 per cent a month.

The commitments made by the government to obtain the second tranche of the \$3bn systemic transformation facility, to assist Russia in restructuring its economy include:

- Bringing down the monthly rate of inflation, presently at 10 per cent, to 7 per cent a month by December 1994.
- Introducing new taxes and improving tax collection.
- Ensuring that all extra spend-

ing or loss of revenue will be compensated by cuts in agreed spending programmes.

These commitments, coupled with the present tight monetary policy, mean that the government has exceptional control over the economy. Industrial production fell 24 per cent last month, compared to a year earlier, greatly increasing political tension and fears of political upheaval.

However, Mr Camdessus said privately that he was extremely impressed by the turnaround in the central bank, whose officials he thought at least as pro-reform as those in the more conventionally radical ministry of finance.

He managed to strike a warm acquaintance with Mr Victor Gerashchenko, the bank head, who said after the signing of the agreement, "allow me to give you the congratulations of the world's most central banker".

This self-deprecation was a reference to a description of him by Professor Jeffrey Sachs, the former adviser to Russian ministers. Professor Sachs last night said he was glad that the "IMF has moved at last, but this is the last moment to assist reforms".

Monetarist swerve wins over IMF, Page 2

Markets shrug off US rate increase

Financial markets yesterday shrugged off Tuesday's Federal Reserve's 0.25 per cent increase in short-term interest rates. The Fed's first move to tighten monetary policy, announced on February 4, had prompted widespread falls in bond and share prices, writes Philip Coggan in London.

But the latest move, which raised US short-term interest rates to 3.5 per cent, was widely expected. By 1pm New York time yesterday, the Dow Jones industrial average was 18.71 higher at 3,881.26, while the long bond was up a quarter of a point.

Even though the Fed announcement was followed by yesterday's cut of eight basis points in the German repo rate, the dollar failed to gain against the D-Mark. In London trading, the dollar closed at DM1.685, down from its Tuesday close of DM1.6885. European markets were mainly influenced by events in Germany.

The Dax index closed 19.79 points ahead at 2,161.13. But later in the day, European bourses fell on fears that the German M3 money supply figures for February might show an annualised rise of as much as 30 per cent. The Eurotrack 100 rose 6.98 points, or 0.49 per cent, to close at 1,445.46.

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EUROPEAN NEWS DIGEST

EU economic growth rising

The European economy should be growing by 2 per cent a year by 1995, although unemployment will continue to rise until after 1996, the European Commission's annual report on the state of the European economy concludes.

The report, which was officially approved by the Commission yesterday, forecasts that gross domestic product in the European Union could grow by as much as 3 per cent by 1996, after 1.3 per cent growth this year, and a fall of 0.3 per cent last year.

However, the report warns that this will not be enough to prevent unemployment rising to a record 11.25 per cent in 1995, up from a predicted 11.3 per cent in 1994 and 10.6 per cent last year. The outlook prompted the Commission to reiterate its calls for Europe's banks to lower interest rates, stressing that this would be essential to stimulate further growth. "Despite the reductions that have taken place in the course of 1993, short-term interest rates remain high given the cyclical position," the Commission noted. It added: "A continued cautious monetary easing in 1994 appears to be largely discounted by both consumers and investors so that a process of accelerated cuts in borrowing costs may be required in order to provide the basis for an upswing in economic sentiment and activity." *Gillian Trill, Brussels.*

Key Bundesbank rate reduced

The Bundesbank yesterday sanctioned another drop in the key securities repurchase rate, from 5.88 per cent last week to 5.80 per cent. But the independent DIW institute for economic research said in its weekly report that the central bank's tentative interest rate cuts were prolonging Germany's recession and causing unemployment to rise more sharply than would otherwise be the case.

The institute said there was room for lower interest rates because unit labour costs fell seasonally in 1993 and were likely to fall again in 1994.

It also questioned the reliability of M3 as a guide for the central bank's monetary policies. The institute, which regularly criticises what it sees as restrictive Bundesbank policies, said the high interest rates would also "choke off" the next economic recovery and prevent prolonged growth. *Reuter, Frankfurt.*

Swiss propose carbon fuel tax

The Swiss government yesterday said it planned to introduce a tax from 1996 on fuels that emit carbon dioxide. If approved by parliament the tax on heating oil, diesel fuel, natural gas, coal and petrol would be introduced in stages and bring in an annual SF1.3bn (\$507m) by the year 2000.

The government said at least two-thirds of the money raised would be pumped back into the economy, but details of how this would be done have not yet been fixed. The carbon tax would add 8.3 Swiss centimes to the cost of a litre of petrol. Lead-free petrol, the most popular variety, costs about SF1.16 a litre. The aim of the tax would be to stabilise carbon dioxide emissions and overall consumption of fossil fuels in Switzerland at their 1990 level and subsequently to reduce them, the government said. *Reuter, Bern.*

Hungary sets EU entry target

Hungary will apply for membership of the European Union on April 1, the Foreign Ministry said yesterday. Hungarian officials have said they hope concrete entry negotiations can start in 1997 and that Hungary can be a full EU member by 1999 or 2000. Hungary, whose association agreement with the EU took effect in February, has made joining western institutions such as the EU and Nato its top foreign policy goal. Its application will make Hungary the first former Warsaw Pact country to seek full EU membership. *Reuter, Budapest.*

Finland considers vote date

Finland could stage a referendum on EU membership on the same day as other Nordic countries on November 13, the prime minister, Mr Esko Aho, was quoted as saying yesterday. Sweden, Finland, Norway and Austria reached preliminary agreements on EU membership terms this month, but the accords need to be approved by national referendums. According to Mr Aho it was not an "excluded option" that the three Nordic EU applicants would stage their plebiscites on the same day. Opinion polls show that public support for membership is larger in Finland than in neighbouring Sweden and Norway. *Reuter, Helsinki.*

Romania purges local officials

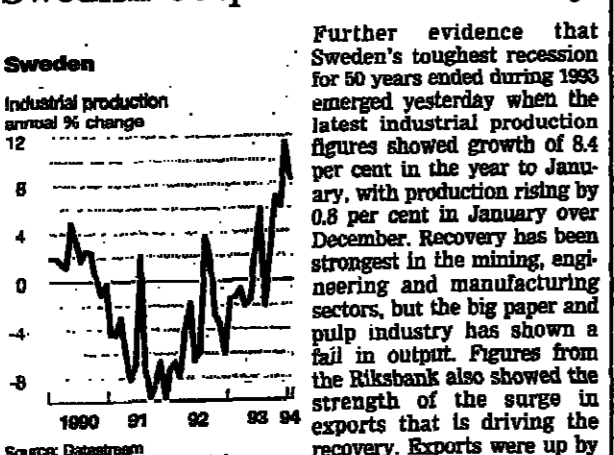
Romania's minority left-wing government has removed 15 mayors and 12 other local elected officials, accusing them of abusing their power and mismanaging public money, the state news agency Rompres said yesterday. The unprecedented wave of sackings, which hit many opposition figures, immediately drew denunciations from opposition parties. The government accused the officials, including the mayor of Bucharest, of "grave infringements of the law", which included the mismanagement of funds derived from land leases. But the opposition National Peasant party called the sackings "illegal and abusive". *Reuter, Bucharest.*

Death of Catholic group leader

Monsignor Alvaro del Portillo, leader of the Catholic lay organisation Opus Dei, died yesterday of a heart attack, aged 80. The organisation, which claims 77,000 members, emphasises church discipline and tradition and has been accused of secrecy and seeking to wield power. Monsignor Portillo succeeded Opus Dei's founder, Mr Josemaria Escriva de Balaguer, as head of the group in 1975. He was ordained a bishop in 1991 by Pope John Paul II. Mr Portillo's successor will be chosen in the coming months by an Opus Dei congress divided into women's and men's sections, which will come up with a candidate to submit to the Pope. *AP, Rome.*

ECONOMIC WATCH

Swedish output shows recovery



Kurds seek last word on Turkish poll

By John Murray Brown, recently in Adana, southern Turkey

Drive south from Adana to the poor suburb of Dagliglu, and there comes a point in the road where the campaign flags and posters suddenly disappear. Among clusters of dismal mud-built tenements it would be easy to forget that Turkey was preparing for municipal elections on Sunday.

This is a vote which the politicians in Ankara believe could be the prelude to early general elections, or at the very least a shake-out in the current conservative-led coalition of Mrs Tansu Ciller.

Adana is in many ways the electoral frontline. Some 500km south of Ankara, it is the Turkish city closest to the Kurdish heartland in the south-east, where the separatist conflict has seriously curtailed the electoral process.

Adana has a proud history. Briefly under French occupation after the Second World War, the city is an ethnic mosaic, where Turks, Arabs and Kurds live side by side in the heart of a rich agricultural belt. Four of Turkey's biggest industrial conglomerates trace their fortunes to the cotton fields and the textile wealth of the nearby Çukurova plain. This prosperity has proven a strong magnet for large numbers of economic migrants from poorer regions, particularly the nearby Kurdish-speaking areas.

However, in the last few years, the cracks have been showing in Adana as the separatist violence has spread. The social and economic strains created by poor Kurds seeking work or escaping the pressures of the war have presented the municipality with a serious



A Kurdish demonstrator setting fire to himself in Frankfurt yesterday on the fourth day of protests by Kurds exiled in Germany who are campaigning for an independent homeland.

problem. The unemployment rate - although no ethnic breakdown is available - is believed to be twice as high in the Kurdish community compared with the city as a whole.

More worrying is the prospect of a widespread Turkish nationalist backlash in the city. Some residents believe it has already started. It was here that the police took the unprecedented step of marching in

protest against the office of the human rights association, which is widely seen by local Turks as being a front for radical Kurdish elements.

Community loyalties are certainly stretched. When Mr Selahattin Colak, the mayor, first stood for office in 1977, local residents remember him openly playing on his Kurdish origins to win votes. This time around he is being more dis-

creet. Even Mr Colak is not venturing into the majority-Kurdish Dagliglu district, a no-go area for most of Adana's citizens.

At night the roads are patrolled by armoured personnel carriers with search lights scanning the alleyways for snipers of the Kurdish Workers' party (PKK). In what was once the city's Arab quarter, angry young radicals say they will boycott Sunday's vote, a pattern which is likely to be repeated in hundreds of towns and hamlets in the Kurdish-speaking region.

At the national level, Sunday's polling to appoint mayors in more than 2,000 towns, is the first real test of the popularity of Mrs Ciller since she was chosen as leader of her True Path party (DYP) in June and became prime minister after Mr Suleyman Demirel moved to the presidency. A bad showing could trigger defections from her DYP and a possible leadership challenge.

The main opposition Motherland party is describing the elections as a national referendum on Mrs Ciller's nine-month-old administration. The vote is also important as a measure of the growing national support for the Islamic Refah party (RP).

In the south-east, merely holding the elections without disruption is presenting a challenge to the authorities. Diplo-

mats point out that this is the first time since restoration of parliamentary government in 1982 that Kurdish violence has threatened nationwide elections.

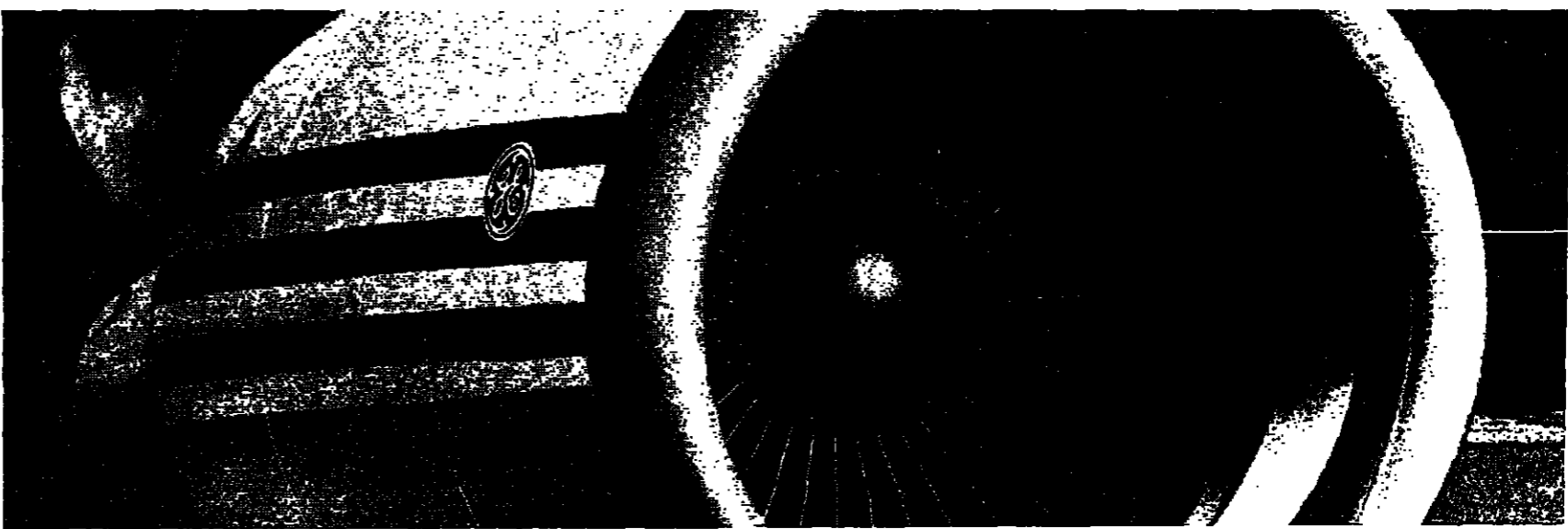
However, a widespread boycott would provide the most visible evidence yet of the extent to which the Turkish government has lost credibility in the Kurdish region.

Ten days ago the Interior Ministry issued special instructions to secure the polling stations, but only after the pro-Kurdish Democracy party (DEP) had already withdrawn its candidates.

According to some unofficial estimates from western embassies, the DEP might have been expected to win about 70 per cent in a free vote. However, the intimidation faced by the party has been considerable. At least 54 of its officials have been assassinated in the past two years. More recently, five DEP MPs have been arrested in Ankara and could now face the death penalty on charges of making speeches espousing the radical Kurdish cause.

In today's climate of fear, many locals believe almost the only people who will turn out to vote will be the Korucu - the government-armed village guards and their families. In such an event, many towns and villages will fall into the hands of the neo-fascist party, the Nationalist Movement.

TWO GIANTS.



These days the Welsh Dragon is a real high flyer since two international giants of the aero engineering industry chose Wales. British Airways has its new engineering base at Cardiff Airport and recently General Electric (USA) has moved to nearby Nantgarw, where they service aircraft engines for famous names like CFML, Rolls Royce and Pratt & Whitney.

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ONE DRAGON.



THE WELSH ADVANTAGE.

NEWS: INTERNATIONAL

Five Arabs die in 18-hour Hebron siege

By David Horowitz
in Jerusalem

The Israeli army killed four Palestinians, allegedly members of the Hamas Islamic resistance movement's military wing, during an 18-hour gun-battle in Hebron that ended yesterday afternoon. A pregnant Palestinian woman also died in the exchange of fire.

In clashes elsewhere in the town over the past 24 hours, another Palestinian woman was killed, and at least 50 other people injured, according to Palestinian sources. In East Jerusalem, an Israeli security guard was shot and critically wounded by a Palestinian who was still being sought last night.

The Israeli army operation against the Hamas activists, which centred on a building in southern Hebron, at one point threatened to cause the cancellation of yesterday's Israeli-PLO talks in Cairo on resuming the peace process, which has been suspended since last month's massacre in a Hebron mosque.

Mr Yasser Arafat, PLO chairman, telephoned Mr Warren Christopher, the US secretary of state, late on Tuesday to protest at the Israeli army operation. Mr Arafat's aide, then warned that PLO delegates might not attend the Cairo talks because of the latest killings. However, the talks proceeded on schedule.

The main focus of the PLO protest was apparently a claim, backed up yesterday by Palestinian hospital sources,

that a 34-year-old pregnant Palestinian woman, Majeda Zahdeh, had been killed by the Israeli troops in the course of the battle. General Ehud Barak, the Israeli army chief of staff, claimed yesterday that she was "apparently killed by gunfire from inside the house, fired by the terrorists".

Palestinian sources said the Israelis fired 100 anti-tank missiles into the building, before bursting in yesterday and killing the four Palestinians. Army bulldozers were last night demolishing the building.

General Barak issued the first official report of the operation in the course of his testimony yesterday before the Israeli commission investigating last month's massacre of Palestinians in Hebron's Cave of the Patriarchs, by Jewish settler Baruch Goldstein.

The latest operation, he said, underlined that the army's continuing top priority in the occupied territories was the battle against Palestinian terrorism. Its second most important task, he added, was securing the roads for Israeli travellers.

While it was also the army's job to provide security for Palestinians, he continued, there was no way to guard completely against a madman like Goldstein on a suicide mission. Nevertheless, he concluded, "if the proper security precautions had been implemented, they might very probably have prevented the massacre, or at least greatly reduced the extent of the crime".

Keating ready to reshuffle cabinet

By Nikki Taft in Sydney

A wider-than-expected ministerial reshuffle in Australia's federal government was in prospect yesterday amid speculation that Senator Graham Richardson, one of the most senior figures in the Australian Labor Party, was about to resign from the health portfolio.

Prime Minister Paul Keating is due to announce a new ministerial line-up later today. This is in response to the recent departures of Ms Ros Kelly, the former minister for sport, environment and territories, and Mr Alan Griffiths, the previous industry minister.

Some elements of their portfolios have already been reallocated on a permanent basis, but a number of ministerial responsibilities have been "re-housed" (put on hold).

This is partly in expectation of the arrival of the former Western Australian premier, Mr Carmen Lawrence, in Canberra.

She won a federal seat in a recent by-election and entered parliament this week.

Ms Lawrence had been widely tipped to take over the environment portfolio, although talk of her receiving Senator Richardson's health responsibilities had also been mooted before the latest resignation rumours surfaced.

Relations between Mr Keating and Senator Richardson have been strained lately, following a public dispute over whether the Medicare levy should be raised significantly to fund new programmes.

If Senator Richardson does depart, he will be the fourth senior government minister to step down in as many months. Mr John Dawkins, the former treasurer, left politics altogether just before Christmas.

Mr Griffiths resigned in January, amid allegations that party funds had been used in the "Above the Line" sandwich shop, a private business venture.

Ms Ros Kelly departed after it was claimed a sports grant programme favoured marginal Labor electorates. Both Ms Kelly and Mr Griffiths maintained that they had done nothing wrong.

Cambodian troops find the going tough

Iain Simpson on problems encountered after the fall of the Khmer Rouge main base

Cambodian government troops occupying the former Khmer Rouge headquarters at Pailin may have defeated one enemy but they still have to deal with several others. Unseasonal rain is wreaking havoc on a new dirt road built to supply them with food and ammunition, while malaria is affecting both health and morale.

After two weeks of heavy fighting, government commanders say they are in control of the former Khmer Rouge base at Pailin, although guerrillas still occupy commanding positions nearby.

In the end, the victory at Pailin came rapidly and there is talk in the Cambodian capital that this could mark the end of the Khmer Rouge as a viable force. It is a big political blow to the faction, but the loss of a main base will not stop small units from continuing their campaign of violence in the countryside.

The loss of Pailin is also a serious financial blow to the Khmer Rouge. Gem mines and timber in the area are believed to have earned millions of dollars a year.

Senior military officers say at least 10,000 government troops supported by heavy artillery and helicopter gunships were involved in the assault on Pailin. Approaching from three directions they squeezed the few remaining defenders towards the border with Thailand.

When they finally reached Pailin only 200 guerrillas were waiting for them, but soon afterwards volleys of shells from the nearby hills began landing at the former base. Now the officers say government soldiers are pushing into the hills to clear out remaining Khmer Rouge pockets.

Pailin is surrounded by hills and as long as the Khmer Rouge retain positions on the higher ground, the government's hold on the base will



Cambodian government troops from a special division dressed in Khmer Rouge uniforms on the way to attack rebel-held Pailin.

not be secure. Already one government helicopter has come under sustained fire from Khmer Rouge positions.

The main obstacle now facing the government side is the logistics. "Their ability to supply and communicate with their troops is being severely stretched," one diplomat said.

Approaching Pailin from the east, troops armed with chain-saws, bulldozers and heavy military trucks literally cut a new road through the jungle. The road twists and turns around trees and thick clumps

of bamboo, trapping trucks towing heavy artillery. Heavy rains are turning the road into a quagmire.

At least 20km from the base the road is blocked and the rest of the way is only passable by foot. On Wednesday one tank carrying soldiers and three freelance photographers to the front hit an anti-tank mine. Two soldiers were killed.

The state of the roads strikes terror into the hundreds of soldiers being trucked to Pailin, who know that this is their

only escape.

Monsoon rains will start in this part of Cambodia in about two months' time, turning up the roads even more, making it almost impossible for trucks to get through to Pailin. If the soldiers cannot be supplied, the base will almost certainly be lost again.

Despite their apparent victory, morale is low among government troops. They are short of food and medicine and water supplies are running low. In one unit most soldiers had not been given their official salary

of \$20 a month for six months before the attack on Pailin.

In February, the government suffered an embarrassing reversal at the northern Khmer Rouge base of Anlong Veng when its troops were driven out less than three weeks after they captured it. Khmer Rouge units attacked behind the government front lines and bombarded government positions, causing heavy casualties.

Senior officers at Pailin say they have learned important lessons from the loss of Anlong



Veng. They have advanced more slowly and strengthened their flanks to prevent a Khmer Rouge attack in the rear.

Already though, Khmer Rouge units are starting to take revenge on villages nearby. Since they lost Pailin, guerrillas have attacked villages in at least five locations in Battambang province. Eight people have been killed and many injured in the attack. In Bavel, which has had a lengthy dispute with the government for years of being on the front line, a government ammunition dump was destroyed when a Khmer Rouge rocket scored a direct hit. Further along the road a huge crater marked the spot where a score of anti-tank mines had exploded.

At least 5,000 people have fled from villages near Pailin in the past few weeks as government troops advanced. They say officials warned them to leave their homes and now complain that the food aid they were promised has not arrived. Many are former refugees who resettled here after spending up to 15 years in camps in Thailand. They say all they want now is a peaceful life, but at the moment they see little hope of that.

February figures continue 17-month decline

Japanese motor output down 14%

By Paul Abrahams in Tokyo

Japan's motor industry output fell 14.1 per cent in February against the same period last year, the 17th consecutive monthly fall. The industry's performance underlines the depth of Japan's recession. Production of cars, trucks and buses fell to 398,000 units, the sixth month the decline has been in double digits.

and a post-war record.

Japanese car manufacturers have been badly hit by the strength of the yen, which has contributed to a 24 per cent fall in exports. Domestic demand fell 6.2 per cent to 519,000 units. Passenger car production fell 14.5 per cent compared with the same month last year, the 11th month output has declined. Production of trucks fell 13 per cent to 214,000 units,

the 31st month that output has decreased.

Toyota's vehicle production fell 12.3 per cent during February to 279,500 units; Nissan's dropped 13.4 per cent to 143,000; Mitsubishi's 10.3 per cent to 111,700; Mazda's 16.8 per cent to 92,000 and Honda's down 14.6 per cent to 92,800.

Japan's opposition Liberal Democratic party yesterday

agreed to a parliamentary schedule that will allow bills for a large income tax cut to be enacted next week, Reuters adds. The tax bills must be passed by March 31, the last day of the current fiscal year, or they expire automatically.

The ¥6,000bn (\$56.5bn) tax cut is one of the pillars in Mr Hosokawa's package of anti-recession measures which were announced last month.

Leakey decides to quit wildlife job

By Leslie Crawford in Nairobi

Mr Richard Leakey, East Africa's foremost conservationist, yesterday abandoned his struggle to protect the Kenya Wildlife Service from political predators by submitting his second letter of resignation to President Daniel arap Moi. He said he would not run the KWS under new directives which could destroy years of pioneering work.

"The KWS dream of a self-financing, efficient, publicly owned but independent

conservation authority does not seem viable in this context," Mr Leakey said. He mentioned only two of the new directives: anti-poaching units, run successfully for the past few years by the KWS, would be placed under the authority of the Commissioner of Police; and that most KWS resources, including millions of dollars of donor funds, should be spent outside its wildlife sanctuaries.

Mr Leakey returned to head the KWS, at the president's request, less than two weeks ago. He had offered his resignation

in January, after charges of racism and corruption were directed at him by cabinet ministers and politicians.

President Moi attempted to defuse the international unrest over his resignation by appointing a committee to examine the workings of the KWS. The committee's recommendations have not been made public, but they appeared designed to curtail Mr Leakey's independence, and to siphon off the millions of dollars of international aid he has raised to fund conservation projects in Kenya.

Icy Sino-British relations show signs of thaw

Simon Holberton reports that the row over Hong Kong democracy may be near a resolution

Britain's winter of bruising struggle with China over Hong Kong has given way to a spring thaw.

Since Hong Kong's Legislative Council (LegCo) voted more than a month ago for the first stage of Governor Chris Patten's political reform legislation, Beijing has scaled back its attacks on the British.

Last week Mr Qian Qichen, China's foreign minister, suggested Beijing might be prepared to draw a line under its row with Britain over democracy in Hong Kong. He said co-operation with London could continue in spite of the row over political development. This theme was taken up by Chinese Premier Li Peng this week when he affirmed Beijing would not exclude UK companies from the Chinese market because of the Hong Kong dispute.

British officials are used to having hopes raised only to see them dashed. But the recent comments, together with other developments, were seen in the colony as further evidence of what in different circumstances Sir Percy Cradock, the British government's former China adviser, called "the faint musical sounds of the lake ice cracking in the sun".

Beijing's more accommodative stance has been matched by London. Mr Patten has virtually vacated the Hong Kong political stage since he returned from Australia last month. "This is a far cry from the political campaign which the governor's advisers were promising in December when Sino-British talks about Hong Kong broke down.

In London Sir Percy Cradock, Britain's former chief negotiator on Hong Kong, yesterday attacked the policies of the present governor, Mr Chris Patten. In even more personal terms than those he used to the House of Commons foreign affairs committee last December, Edward Mortimer reports.

In a speech to the Royal Institute of International Affairs Sir Percy recalled the phrase "double whammy", used of Labour's tax policies by Mr Patten when he was chairman of the Conservative party, and said that what Britain had

achieved in Hong Kong was "quite a notable example". Official policy, he said, had an "Alice in Wonderland" quality: "All those who speak up for democracy will have ended up by damaging it, and in the process will have antagonised a rising superpower".

Sir Percy also accused Mr Patten of putting undue pressure on LegCo, the colony's legislative council, to adopt his proposals for the 1995 elections. The people of Hong Kong, he claimed, were being "pushed forward into a kind of confrontation which I don't think they want". He

urged that LegCo be allowed "a whip-free vote", but alleged that "in fact what has happened has not been that. All the resources of Government House are being used to push it through, including the placemen, the appointed members. They are being asked to move forward like the troops of the Light Brigade." In any case, Sir Percy added, LegCo should not be the final arbiter. "We remain responsible until 1997. It does not lie in our ability to say 'it's very unfortunate but this is what LegCo wanted'. That won't do."

Mr Qian highlighted the work of the Joint Liaison Group (JLG), a bilateral group dealing with the mechanics of the transfer. The foreign minister said the activities of the JLG, and its sub-committee dealing with the airport, had been unaffected by the political row. His comments were welcomed by Mr Hugh Davies, Britain's chief representative to the JLG, who said they were "very encouraging".

Mr Qian, perhaps recognising that structure developer, recommended abolition of the colony's "political structure" after 1997. In the end the NPC did not vote on Mr Cheng's motion. This gave comfort to those who believe Beijing does not want to box itself in, but rather wants to leave itself room for manoeuvre.

Mr Qian's remarks last week were among the more eloquent to come from a Chinese leader in months and Mr Li's comments indicated that Beijing was not prepared to jeopardise all aspects of ties with Britain.

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NEWS IN BRIEF

Paris, Madrid warn on Algeria

France and Spain yesterday advised their nationals to leave Algeria after Muslim militants stabbed two Frenchmen to death in their Algiers home, writes Our Foreign Staff. Thirty-two foreigners have died in Algeria's civil strife since last September, eight of them French, but yesterday's killings were the first of foreigners inside their own homes.

Algeria will increase retail prices of basic foods such as bread, flour, semolina, milk and five other staples by 25-100 per cent with effect from today, the official news agency APS said. The increases follow talks with the International Monetary Fund, which has pressed the government to reduce subsidies.

GDP set to rise in NZ

The New Zealand Reserve Bank yesterday forecast GDP growth would rise 5.3 per cent in the year to March before falling to an average 3.5 per cent over the next two years, writes Terry Hall in Wellington. Inflation was expected to remain well within the 0.2 per cent range, with little change in the current account deficit.

Iran to develop port city

President Ali Akbar Hashemi Rafsanjani yesterday inaugurated Iran's biggest pier, near Bandar Abbas, south Iran, and announced plans to develop the port city into an economic and industrial area, Reuters reports from Tehran. The new pier, 12.5 miles west of Bandar Abbas, was built with a 4.4 mile channel alongside, allowing bulk carriers with a capacity of 100,000 tonnes to berth.

Burundi clashes kill 1,000

About 1,000 people had been killed in fighting between troops and tribal gunmen in Burundi since the weekend. Burundi's Interior Minister Leonard Nyangoma said yesterday. Reuters reports from Bujumbura. Thousands of civilians are fleeing the fighting between the Hutu majority and the minority Tutsi-dominated army. The fighting was sparked by the president and prime minister deciding on Monday the army should crack down to end violence in the capital, diplomats said.

Aid and praise for Zambia

Zambia has been pledged \$1.1bn in aid for 1994, and has won World Bank praise for an unparalleled overhaul of its economy. AP reports from Harare. "It's difficult to find a country that's done more," Mr Stephen Denning, director of the World Bank's Southern Africa department, said at a donors' meeting in Paris. Inflation had fallen from 294 per cent in early 1993 to 10 per cent at the year's end.

Malaysian No to UK

British companies had no hope of winning contracts when Malaysia went ahead with tenders for its new \$3bn airport project, Reuters reports from Kuala Lumpur. British companies were free to submit their tender papers, "but because of the government decision not to award to UK companies, there is no likelihood they are going to get the tender," Deputy Prime Minister Anwar Ibrahim said. Malaysia announced in February that British contracts in an Anglo-Japanese consortium to build a new airport were cancelled, in retaliation for British media allegations of corruption in Malaysia's business dealings.

Sudan allows food to south

Sudan's Islamic government and southern rebels yesterday agreed to allow food and aid to the south, Reuters reports from Nairobi. After three days' talks, they also agreed to respect aid workers and supplies in the "corridors of tranquillity" and appealed for more international aid.

Lebanese militia blamed

Lebanese authorities yesterday accused members of Lebanon's Christian militia of a church bombing that killed 11 people, Reuters reports from Beirut. Seven members of the Lebanese Forces were among nine people arrested or wanted concerning the February 27 bombing of the Church of Our Lady of Deliverance at Jounieh, north of Beirut, they said.

Markets seek clues to 'neutral' rates

Michael Prowse on what Greenspan may mean by such an interest level

There is a question hovering like a dark cloud over financial markets. What does Mr Alan Greenspan, the Federal Reserve chairman, mean when he talks of a "neutral" level of short-term interest rates?

The question is critical because Mr Greenspan has indicated publicly that he intends to raise rates until they reach a neutral level consistent with sustainable non-inflationary growth.

The problem is that the Fed has given no indication of what such a rate would be. Confusion about the meaning of neutrality partly explained the adverse market reaction to the Fed's first tightening move - the quarter point increase in short rates announced on February 4.

It was immediately clear that rates were still below a neutral level. Markets therefore discounted further rate increases, causing a plunge in bond prices and a rise in yields to nearly 7 per cent.

Tuesday's quarter point increase, taking short rates to 3.5 per cent, was better received, presumably because it took rates closer to Mr Greenspan's goal of neutrality. Bond prices surged and share prices advanced modestly, rather than plunging as in early February.

Many analysts now expect the Fed to leave rates unchanged for a few months, in the hope that markets will calm down. But because 3.5 per cent is almost certainly not what Mr Greenspan regards as a neutral monetary policy, nagging doubts will remain.

In recent decades, says Mr Bruce Steinberg, a senior economist at Merrill Lynch in New York, the federal funds rate - the cost of overnight money for banks - has exceeded consumer price inflation by an average of 180 basis points, or 1.8 percentage points.

Since the underlying rate of inflation is at least 2.5 per cent - and quite possibly 3 per cent - this implies a neutral rate would be between 4 per cent and 5 per cent.

However, during periods when inflation was subdued - such as the 1950s - the gap between inflation and short-term rates was closer to 100 basis points or 1 percentage point. So optimists on inflation - such as President Bill Clinton's economic advisers - may believe the present fed funds rate of 3.5 per cent is already at, or close to, neutrality.

If economic growth slows down after overheating in the final quarter of last year, as

Orders for US durable goods fell 2.5 per cent between January and February, more than expected in financial markets, but the decline mainly reflected a sharp drop in aircraft orders, which tend to be highly volatile on a monthly basis.

Excluding transport, orders were flat in February and up 8.6 per cent from the same period last year. Excluding defence as well as transport, orders edged higher last month.

Mr Ron Brown, commerce secretary, said the figures, adjusted for special factors, were consistent with "sustained economic growth".

He said orders for non-defence capital goods, excluding aircraft - regarded as a good guide to civilian investment trends - rose 5.3 per cent last month.

"The manufacturing sector continues to expand," said economists at C.J. Lawrence, a New York broker. "Both durable goods orders and shipments are on steep upturns." They predicted a sharp rebound in aircraft orders this month.

Most analysts are anticipating a strong rebound in economic growth in March after disruptions in several sectors as a result of severe winter weather earlier in the year.

Most forecasts suggest, monetary policy might not need to be tightened much more. And bond yields could move back down to, say, 6.5 per cent.

Mr Greenspan may have more sympathy for this view than some analysts suspect. On several occasions he has noted that rapid economic growth need not be inflationary provided it reflects rapid productivity growth - which the US has certainly enjoyed in the past two years. It is thus conceivable that the Fed regards 4 per cent as an upper bound rather than a lower bound when estimating neutrality.

But this hardly lets bond investors off the hook. The Fed's talk of raising rates to neutral levels was probably only the first step in a gradual process of conditioning political leaders to the need for a tighter monetary policy.

In a strong business cycle upswing, such as that under way in the US today, rates typically have to be lifted, temporarily, well above neutral levels. It thus seems almost inevitable that the Fed will push rates well above 4 per

cent even if it remains confident about the inflation outlook.

For what it is worth, historical experience suggests rates will rise substantially from present levels.

The average increase in short rates during previous episodes of tightening was nearly 6 percentage points, or nearly 4 percentage points excluding the inflationary 1970s. That suggests short rates could rise to 7 per cent or more in the next few years.

How rapidly the Fed raises rates will depend on trends in real growth and inflation, which in turn will be influenced by the tightening already announced.

The sharp rise in bond yields since early February has already caused fixed-rate mortgage rates to rise from 7 per cent to 7.75 per cent. Since these rates are fixed over the term of the mortgage, homebuyers are scrambling to complete purchases before rates rise another notch. But over the next few months, higher mortgage rates are likely to cool the housing market.

Some deceleration in the heady growth of business investment - the leading sector in this productivity-driven recovery - can also be expected in response to the increase in long bond yields. But the impact will be modest and will probably not begin to take effect much before the end of this year.

As yet it is unclear what effect Fed tightening will have on commercial banks' prime lending rates, currently 6 per cent. Many consumers and small companies borrow at rates linked to prime.

The Fed's tightening moves have reduced the margin between prime and money market rates from 3 per cent to 2.5 per cent. But the margin is still generous by historical standards. Since many banks are highly profitable, they can afford to delay increases in prime rates in the hope of generating more loan volume.

Opponents of further Fed tightening will argue not only that recent interest rate moves are already having a negative impact on growth, but that prices are anyway remarkably subdued. In February the annual rate of consumer price inflation was 2.5 per cent; wholesale price inflation was under 1 per cent.

Mr Greenspan's unpopular task is to prevent a resurgence of inflation as the recovery matures - something that has accompanied every previous post-war business cycle.

Creditors come out in favour of Brazil

By Angus Foster in São Paulo

Brazil yesterday looked close to winning approval from bank creditors to close its \$52bn (£26.5bn) commercial debt restructuring, without the formal support of the IMF.

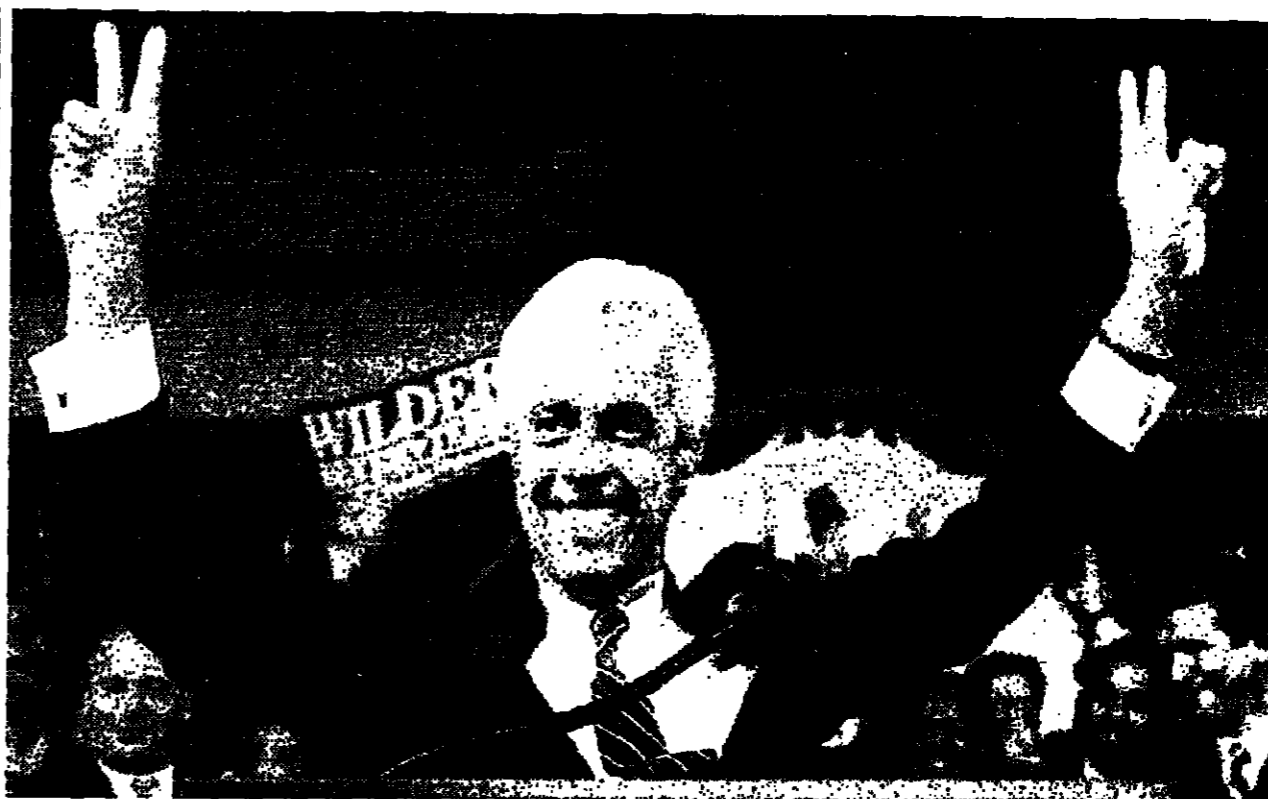
Mr William Rhodes, vice-chairman of Citibank and chairman of the bank steering committee, said creditors holding 60 per cent of the debt had agreed to waive the IMF's involvement.

"I feel confident we will obtain the 80 per cent we need. This is the quickest waiver approval I've ever experienced," Mr Rhodes said. Banks have until the end of today to agree the waiver.

The waiver became necessary after the IMF last week refused to grant Brazil a stand-by loan, apparently reflecting concern about the viability of the country's anti-inflation measures.

● The usually appalling traffic in São Paulo, South America's largest city, was even worse yesterday due to a series of strikes protesting against the government's anti-inflation measures.

Metalworkers from São Paulo's main car plants blocked motorways in the south of the city while services on the underground railway were delayed for two hours. Workers complained that the government's latest attempt to tackle inflation, through the introduction of a new currency later this year, is damaging their purchasing power. Conditions returned to normal by late morning.



Mr Douglas Wilder, pictured in 1989 when he became the first black governor of a US state

Wilder tempted by Virginia race

By Jurek Martin in Washington

Political Washington may be consumed with Whitewater, but it does not have to look far afield for diversion. The neighbouring state of Virginia is currently providing political theatre of the highest order.

The latest twist to its endless soap opera has come in the shape of public musings by Mr Douglas Wilder, former governor, that he might have to enter this year's Senate race to stop the state becoming, as he puts it, "a laughing stock".

Most Virginians were surprised when Mr Wilder, a Democrat, pulled out of the Senate contest in January. They had assumed he would not be able

to resist the temptation of taking on his long-time enemy, the incumbent Democratic Senator Chuck Robb, whose staff had owned up to bugging Mr Wilder's telephones.

They believed Mr Wilder, the state's first black governor, had concluded that Mr Robb was more likely to beat former Lt Col Oliver North of Iran-Contra notoriety, then considered the Republican favourite. He may also have been influenced by the ease with which Mr George Allen, the conservative Republican, won the governor's race last November.

But circumstances have changed and both Mr Robb and Mr North have fallen on hard times. The former has finally

confessed to being unfaithful to his wife (the daughter of President Lyndon Johnson) while the latter has incurred the wrath of ex-President Ronald Reagan for presuming to suggest that his old boss knew more than he has let on about Iran-Contra.

Both men's favourable ratings have plunged to the low 30 per cent range, according to one local poll. Mr North now only has a small lead in the Republican contest over Mr James Miller, budget director in the Reagan administration but hitherto an obscure personality in the state. Mr Miller comes out even with Mr Robb, while Mr North trails the incumbent senator by 17 points.

Meanwhile, Mr Allen, in spite of successes with the state legislature, has also been no stranger to controversy, first saying he would join a private club with a history of discrimination against blacks and women and then changing his mind. His staunch support of a proposed new Disney historical theme park in northern Virginia is also stirring up the local hordes.

The temptations for Mr Wilder are pretty obvious. "People are joking about us nationally," he said this week. For a state which produced George Washington and Thomas Jefferson, that is no laughing matter.

Business Backbone



Telia is part of the pan-European telecom alliance

For professionals managing data and telecom matters in internationally active companies, "seamless communications" is not just another high-tech buzzword. Direct communications have always been the objective, but until now, technical and administrative boundaries between Europe's national telecom operators have remained a major obstacle.

To provide a solid "backbone" for international business communications, Telia, the Swedish telecom operator, has entered into a long-term alliance with PTT Telecom Netherlands and Swiss Telecom PTT. Unisource, owned jointly by the three partners, provides a single point of contact and a seamless international network, supporting global services for data, satellite and messaging communications. Other Unisource services will follow as liberalization evolves, and demanding international business customers are already reaping the benefits.

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Clinton supporters urge tougher stance on Haiti

By George Graham in Washington

President Bill Clinton's policy towards Haiti yesterday came under fierce attack from some of his most reliable supporters.

The Congressional Black Caucus, representing 40 African-American members of Congress, urged Mr Clinton in a letter to scrap his Haitian policy and take a tougher approach to the task of restoring ousted President Jean-Bertrand Aristide to power.

The caucus urged Mr Clinton to cut air links with Haiti, deny visas to the Haitian military and impose sanctions on any country violating the United Nations embargo on trade with the Caribbean nation.

Many of the caucus's mem-

bers - including Congressman Kweisi Mfume, its chairman, and such senior congressmen as Mr Bill Clay of Missouri and Mr Louis Stokes of Ohio - also signed an open letter published yesterday in the New York Times newspaper accusing the administration of racism in its policy towards Haitian refugees.

The letter, which is signed by mayors, actors, singers and civic leaders, complains that the US has "effectively sealed Haitian political refugees into the death chamber of their own island," while offering safe haven to refugees from countries like Vietnam, Cuba and Poland.

"In no other case, against no other people has our nation employed measures of automatic repatriation. Why just

the Haitians? One is left to reasonably conclude that our policy is driven by considerations of race," the letter says.

State Department officials said the US continued to work with backers of a formula proposed by some members of Haiti's parliament that calls for Mr Aristide's return but with no fixed date and without the removal of the military leaders who ousted him. Mr Aristide has rejected the formula.

Mr Michael McCurry, State Department spokesman, acknowledged that a draft UN resolution supporting this formula had made little headway. "I don't know how long it takes a UN resolution to get mouldy, but it has certainly been on the shelf," he said.

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NEWS: WORLD TRADE

US secures Gatt waiver over China

By Frances Williams in Geneva

The US yesterday won a change in General Agreement on Tariffs and Trade rules allowing it to refuse Gatt benefits to China even if Beijing succeeds in rejoining the world trade body this year.

US trade officials have indicated that Washington might seek this opt-out if the Clinton administration decides in June not to renew China's most favoured nation status in the US market because of Beijing's poor human rights record. The MFN rule, which forbids discrimination between trading partners, is one of Gatt's fundamental tenets.

At yesterday's meeting of Gatt's governing council, the US secured formal approval from other nations for a reinterpretation of the "non-application" rule. This provision, rarely invoked, allows any individual Gatt member to refuse to apply the General Agreement on Tariffs and Trade to an incoming member (and vice versa).

However, the present rule stipulates that the two countries must not have begun tar-

iff negotiations with each other, an integral part of the bargaining process on Gatt entry terms. The new interpretation, effective immediately, will allow "non-application" even after tariff negotiations have been started. This effectively applies to Gatt the redrafted "non-application" rule of the new World Trade Organisation, due to come into force next year.

The change means that the US could lift its effective block on China's rapid entry into Gatt, and begin the necessary bilateral tariff bargaining with Beijing, without prejudice to this year's decision on MFN. China is anxious to become a Gatt member by the end of the year in order to qualify as an original member of the WTO.

At a meeting last week of Gatt's negotiating group on Chinese entry terms, trading partners agreed to try to accelerate the seven-year-old talks but the US has so far refused to commit itself to an early deadline.

The possibility of allowing China to join Gatt, while reserving the right of "non-application", could help the US



Mr Bill Gates, chairman of US software giant Microsoft, pictured in Beijing, the Chinese capital, yesterday taking time off from talks with the country's political leaders and local computer enterprises

administration in its search for a long-term way out of the damaging annual MFN debate over Chinese trade and human rights. If the US decides not to invoke the "non-application" provision at the outset, or later revokes it, it cannot under WTO rules reinstate it again.

Yesterday's council meeting

also saw strong criticism of the US decision to reinstate Super 301 provisions for unilateral trade action. In addition, the council decided:

- to set up a working party to examine whether the North American Free Trade Agreement is consistent with Gatt rules;
- to postpone substantive discussion of a Gatt disputes panel report condemning EU restrictions on imports of Latin American bananas. Negotia-

tions between the EU and the affected producers are continuing.

Separately, trade officials expressed confidence yesterday that all 81 Uruguay Round tariff schedules would be cleared by trading partners as final and correct by tomorrow's deadline.

Caribbean basin nations hope for help to ease the pain, writes Canute James

Neighbours line up at the door of Nafta

Central American and Caribbean governments are awaiting with more than passing interest an imminent US statement on measures to cushion the economic dislocation which the region expects from the North American Free Trade Agreement.

However, Washington's proposals, promised by Mr Alexander Watson, assistant secretary of state for inter-American affairs, are likely to disappoint Caribbean basin governments which have been seeking a comprehensive package to allow free access to the US and Canadian markets. The US proposals could also be "at a cost" to the region, say some Caribbean officials.

Claiming that a more competitive Mexico, with free access to the US and Canada, will capture markets which Caribbean basin countries have developed under current trade agreements, the region has asked for "parity" with Mexico in exporting to Nafta signatories.

Some regional government officials and US legislators supportive of the Caribbean's concerns - which include the possible diversion of investments to Mexico - have now concluded that what would amount to a de facto extension of Nafta is unlikely. They believe that the US administration would not again willingly confront the coalition of opposition which fought the implementing legislation last November.

The measures to be announced by

the US are a result of discussions last year between President Bill Clinton and leaders from the Caribbean and Central America. Mr Clinton and his Mexican counterpart, Mr Carlos Salinas, assured the Caribbean basin countries that they would not be adversely affected by the implementation of Nafta, and that efforts would be made to protect their markets in the US and Canada.

What the Caribbean basin countries want is quick action by legislators in Washington, and then in Ottawa and Mexico City, to ratify proposals by some US congressmen to put all the region's exports to the US and Canada on a par with Mexico's.

The parity proposals are aimed at giving Caribbean basin countries an open door to the Nafta market for three years. During this time they would have the opportunity of negotiating their future trade relationship with the Nafta signatories, with the option of seeking membership either as individual states or as a group.

"President Clinton has said his administration will ensure that the benefits of Nafta are felt by the Caribbean countries," said Mr Manuel Esquivel, prime minister of Belize. "We are heartened by President Salinas' assurances that it is not Mexico's intention to take investments away from the Caribbean. But we remain apprehensive."

There is yet no indication of what the US administration will propose for the Caribbean basin. Mr Edwin Car-



Prime ministers Manuel Esquivel (left) of Belize and P J Patterson of Jamaica are apprehensive about the treaty's impact on their countries' economies

ington, secretary-general of the Caribbean Community (Caricom), said he expected parity to be given to "only a few" of the region's exports, including textiles.

"The parity issue, which is the first step we are seeking, is becoming a case of limited benefits for a very great price," he said. While willing to give parity to a few products, the US wanted the Caribbean basin countries to meet new conditions, including bilateral investment treaties, intellectual property rights agreements,

workers' rights and environmental legislation, democracy, good governance and accountability, Mr Carrington said.

"The costs of parity are much higher than we anticipated and any thoughts of full membership of Nafta are as far down the road as they ever were."

In presenting their case for parity, Caribbean leaders have argued that the US and Canada will also be the losers if there is extensive economic dislocation in the region caused by a

loss of markets to Mexico. Mr P J Patterson, Jamaica's prime minister, claimed that many jobs in the US depended on trade flows between that country and the Caribbean region.

"Each \$1bn of US exports to the region creates 20,000 new jobs in the US," he said. "In the past 10 years US exports to the Caribbean basin have doubled, making the region the tenth largest market for US exporters. As Caribbean economies grow our ability to absorb US exports will also increase."

"Currently 60 cents of every dollar earned by the Caribbean returns to the US through the purchase of US goods, compared with only 10 cents for each dollar spent by Asia. This is why we must pursue efforts to ensure that the question of the granting of parity be given early and positive consideration."

Without improved access to the US and Canadian markets to counter Mexico's benefits under Nafta, the Caribbean basin countries will have to continue depending on their current trade preference agreements with the US and Canada.

The benefits from these were diminishing, said Mr Carrington, as the region's exports became less competitive and Mexican products enjoyed the benefits of the market.

"The Nafta playing field will never be level for the region," he said. "Nobody is going to give us an even playing field, but we have to work to make it less uneven."

Clinton backs law to combat ship subsidies

By Nancy Dunne in Washington

The Clinton administration has agreed to throw its weight behind legislation now in Congress which would impose fines on new ships built in foreign subsidised shipyards entering US ports.

The decision to back the long-delayed legislation comes after leading shipbuilding countries and the US meeting last week at the Organisation for Economic Co-operation and Development in Paris, failed to agree to an end to shipbuilding and repair subsidies. The bill is intended to serve as a leverage in the US effort to end ship dumping, indirect supports, and subsidised export credits.

US trade officials and the industry, represented by the Shipbuilders Council of America, are now at odds over the future of the talks. Officials are hoping for another round in April. The Swedish chairman of the talks will prepare a document laying the groundwork for further negotiations.

Mr John Stocker, president of the shipbuilders council, said he had lost hope in a negotiated solution.

"Before last week's talks, we were assured by the Clinton administration that this round was it," Mr Stocker said. "If agreement couldn't be reached, our negotiators were going to pull the plug. We believe this time, final means final."

The shipbuilders council pushed for the talks when in 1989 it filed a complaint under Section 301 of US trade law. Unsubsidised US shipyards lost

their commercial business base during the 1980s because they could not compete against subsidised competition. With the end of the cold war and the reduction of the naval fleet, more shipyards will close.

Mr Stocker was critical of European negotiators, who are blaming the failure of the talks on the US. "While the Japanese and Koreans were clearly interested, at least in engaging the US side in dialogue, Europe was not," he said. "Without the legislation, we will never attain the trade agreement we want."

The council is also critical of the administration, which has reportedly held up 11 applications for a new programme of export credit guarantees, which offer up to 25-year repayment terms.

After bilateral talks with Japan and South Korea produced significant breakthroughs, US trade officials thought an end to the negotiations was at last in sight.

"The US, Japan and Korea agreed to one standard on loan repayment terms - 12 years. Europe said No," an official said. "The US wanted discipline and a binding dispute settlement on export credit financing. The EU said No."

The EU then brought up the US Jones Act, which allows only US owned, built, and crewed ships to make more than one stop at US ports. US negotiators said this was an operating issue rather than a shipbuilding issue, but that the US was willing to limit the number of new ships built under the act.

NEWS IN BRIEF

Ford outlines China venture

The Ford Motor company said yesterday it had signed a preliminary agreement with Shanghai Automotive Industry Corp for a components manufacturing joint venture in China, Reuters reports from Dearborn, Michigan.

The US company said its plastic and trim products division and Shanghai Automotive's Yan Feng division would collaborate on producing interior trim components, seats, instrument panels and other plastic parts for the Chinese motor industry. It is Ford's first manufacturing venture in the country.

New bridge to Singapore

The governments of Malaysia and Singapore have signed an agreement to build a \$482.3bn (\$660m) second bridge linking the two countries, writes Kieran Cooke in Kuala Lumpur.

The work on the Malaysian section - about two-thirds of the total 2km length of the structure - will be carried out by United Engineers, a company closely connected to the dominant United Malays National Organisation political party. About 50,000 vehicles use the existing bridge and severe congestion problems have developed.

EU pact with Ukraine

The European Union signed a partnership and co-operation agreement with Ukraine yesterday, the first such pact with a former Soviet republic, Reuters reports from Brussels. The pact envisages a future free-trade area between the two sides following an assessment in 1998 of Ukraine's progress towards a market economy.

Finns in Russian deal

Ivo International, the Finnish power company, has signed an agreement to participate in the rehabilitation of 16 power plants and associated heating systems in Russia, mainly around St Petersburg, Michael Smith writes.

The value of the projects, together with the development and commissioning of new environmental protection technologies, will be about \$1.1bn (\$122m). Russia will cover the costs of the projects by currency earned with sales of fuel and electricity to Finland. Most of this power will be the result of savings from modernisations and improvements in efficiency at the plants.

Abu Dhabi mosque bids

Some 20 international companies have submitted pre-qualification documents for a prestige contract to build a 50,000 sq metre mosque in Abu Dhabi. The closing date is April 11, Robin Allen writes from Dubai.

The marble-and-granite structure will be called the Grand Mosque of Sheikh Zayed Bin Sultan II, after the ruler of Abu Dhabi and president of the United Arab Emirates. Estimates put the total cost at some Dh500m (\$91m).

Tractebel Al Khaleej was recently awarded the consultancy contract for the Taweela "C" project by the Abu Dhabi water and electricity department, which is building a new power generation and water desalination plant at Taweela, near Abu Dhabi city.

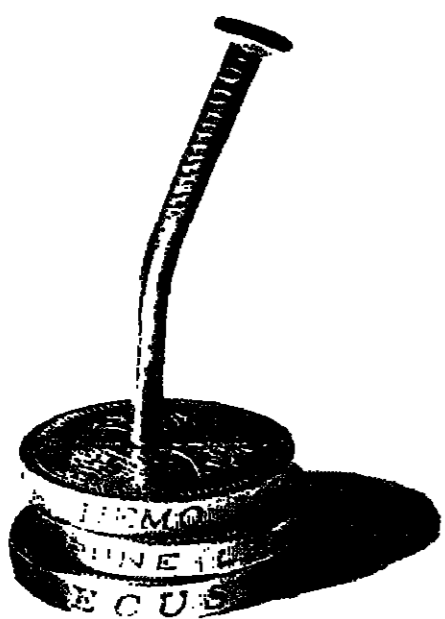
Indians court Sri Lanka

"Sri Lanka looks a much better bet for Indian business than Vietnam," said Mr Jamsheed Godrej, president of the Confederation of Indian Industry, summing up prospects for Indian trade and investment in Sri Lanka, Mervyn de Silva writes from Colombo. Mr Godrej was the leader of a 15-member business delegation visiting Sri Lanka.

Bilateral trade rose from \$55m in 1989 to just over \$300m (\$205.4m) in 1992 but remains heavily in India's favour. The 1993 figure is likely to exceed \$350m, according to the local chamber of commerce. "The Indian authorities and big business seem to agree that Indian investment in joint export ventures is the best answer to the widening trade gap. We must try to attract the Indian giants," said a spokesman for the national chamber of industries.

Arvind Mills, a leading Indian textile manufacturer, will set up a \$14m textile mill in the north Colombo free trade zone. Two other Indian projects, an asbestos factory and a steel rolling mill, have also been given ministry approval.

"I like to keep tabs on my money"



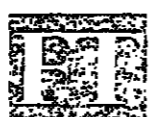
Everyone with a bank account will value the way the Psion Series 3a palmtop computer records and reports transactions. Unlike haphazard records and tedious statement reconciliations, it provides an accurate, up-to-date account status, identifies bank errors, and saves time and money by managing financial affairs efficiently and easily. It's just one of a thousand and one ways the Psion Series 3a helps you to manage your life.

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'Litany of disasters' for the international drugs industry

By Clive Cookson in London and Paul Abrahams in Tokyo



The past year has been the worst in recent memory for the international drugs industry, the Financial Times World Pharmaceuticals Conference heard yesterday.

Mr Henry Wendt, chairman of SmithKline Beecham, opened the meeting in London by reciting a "litany of disasters", including "draconian" government mandated price cuts and/or prescribing restrictions in Italy, Germany, Japan and other countries.

"Apart from the Gatt agreement, which advances protection of intellectual property rights, it's hard to think of any good news for the pharmaceutical industry over the last year," Mr Wendt said. "So it's no surprise that sales and earnings growth is slowing and that many [company] shares have declined by 30 per cent."

Much of the industry's nervousness is now focused on the Clinton administration's proposed US healthcare reforms.

"I have no qualms in predicting that, come hell or high Whitewater, healthcare legislation will be signed into law in 1994," said Mr Toby Moffett, a former congressman who now runs Strategic Policy, a US health consultancy.

"US healthcare reform will be passed this year"

Mr Moffett forecast that the legislation would be a watershed version of the original Clinton proposals. But, he warned, "the politicians will feel strongly that they need some populist elements to this bill and that means that slapping down the insurance and pharmaceutical industries will be a prerequisite to passage."

The drugs industry had so far "not been as creative and certainly not as effective as it

could be in getting its message across."

But Mrs Virginia Bottomley, UK health secretary, delivered a more reassuring message to the industry in Britain. Delegates were relieved to hear that the government "still remains to be convinced" about the merits of compulsory generic substitution - prescribing cheap unbranded drugs wherever possible.

Her junior colleague, Dr Brian Mawhinney, health minister, had alarmed the industry last month when he said he wanted to discuss ways of extending generic substitution with the British Medical Association.

The Japanese Ministry of Health and Welfare was severely criticised for its cost-cutting methods by Mr Kunio Takeda, president of Takeda Chemical Industries, Japan's biggest pharmaceuticals company.

The policy of steep price cuts every two years had forced manufacturers to launch only slightly modified compounds to cut the time and cost involved in developing new drugs, Mr Takeda said. Such policies would, in the long run, damage the industry.

"If pharmaceutical companies were forced to sacrifice themselves [because of] unfair measures to contain healthcare expenditure, in the long-run [the policy] would backfire in terms of a deterioration in drug discovery opportunities," he said.

Mr Takeda also complained of the ministry's "closed door" way of decision-making. Consultation with the industry appeared to be a mere formality, he said. The ministry is imposing an average 6.6 per cent price reduction on April 1.

The complaints follow a letter earlier this month sent to the Japanese ministry by the US Pharmaceutical Manufacturers' Association and the European Business Council. It objected to the lack of transparency in the ministry's decisions and argued that changes in policy had been implemented too quickly.

Tokyo suicide warning over drugs

By Paul Abrahams in Tokyo

Japan's ministry of health and welfare yesterday warned that alpha interferons, drugs developed to treat hepatitis and cancer, could cause depression and exacerbate suicidal tendencies. It said 32 people taking the drug between July 1987 and December 1993 had

attempted suicide and 12 of them had died.

The announcement is another serious blow for the Japanese pharmaceutical industry. Interferons were one of fastest growing sectors last year in what was otherwise a lacklustre Japanese drugs market.

The stocks of Japanese com-

panies marketing alpha interferons fell sharply. Takeda shares fell Y40 to Y1,250. Baring Securities estimates its interferon generated sales of Y30bn (£190m) last year.

Sumitomo Chemical, which markets interferon under licence from Wellcome of the UK and achieved sales of about Y48bn, fell Y11 to Y464.

Yamanouchi shares dropped Y20 to Y2,050.

The news is also a setback for foreign drug companies. The world alpha interferon market was worth about \$1.5bn last year, of which most was in Japan. Those affected include Schering-Plough of the US, whose drug achieved sales in Japan of Y30bn last year.

Row likely over whether UK too lax in licensing satellite channels which can be seen all over the EU

UK faces Brussels challenge over TV

By Gillian Tett in Brussels and Raymond Snoddy in London

The UK appears to be heading for another row with Brussels following a decision yesterday by the European Commission to start legal action against the British Government for failure to comply with the EU television directive.

The row is about whether the UK is too lax in licensing satellite television channels which can be seen all over

the EU.

The commission is taking the UK to the European Court of Justice over the technical issue of jurisdiction. All other EU countries regulate satellite channels in the country where their headquarters are located. The UK, following the European Council convention on the issue, believes jurisdiction should be up to the country where the programme signal is "up-linked" to the satellite. The jurisdiction issue masks

the real dispute which is about quotas to preserve European programme content.

Under the directive, cable and satellite television channels have to carry a majority of European made programmes "where practicable". Those which do not should move progressively in that direction.

Channels such as Mr Ted Turner's TNT/Carson Channel licensed in the UK feature predominantly American material. The Commission is believed

to have decided to move against the UK on the jurisdiction issue because it might not be successful on quotas because of the "where practicable" qualification.

A new paper on the audio-visual industries throughout the EU is believed to suggest strengthening the quota system, possibly requiring evidence of direct investment in European programming.

Yesterday's decision means the Commission has decided to

try and force the UK to come into line with the rest of Europe by opening legal proceedings.

The move is likely to be welcomed by France and Belgium, which have complained that the UK's failure to impose EU standards on satellite television have left channels like TNT/Carson Channel free to broadcast into their markets.

The present situation, the Commission argues, makes a

mockery of the single market, since broadcasters can fall under two national licensing systems - or under none, as in the recent case of the pornographic channel Red Hot Dutch, which evaded both UK and Dutch licensing laws.

In December the National Heritage Department in the UK wrote to a number of satellite channels asking what progress they had made to meeting the 51 per cent programme quota.

Coca-Cola on offensive against sub-brand rival

By Robert Peston

Coca-Cola, the world's biggest soft drinks company, is to launch a multi-million pound advertising, public relations and political campaign to prove that there is only one "real" cola.

It is targeting a recent arrival to the UK: Cott Corporation, a fast growing Canadian bottler and marketer of private label soft drinks for supermarkets. Cott is at an advanced stage of negotiations with J. Sainsbury. It hopes the UK's biggest supermarket chain will launch a cola sub-brand - one incorporating Sainsbury's name and a new trade name - by the end of May.

A raft of expensive consultancy firms have been hired by Coca-Cola: Bartle Bogle

Hegarty for television and newspaper advertising, Brunswick for public relations, Lowe Bell for political lobbying - as a new trade mark bill goes through the Commons - and strategic marketing advice.

Coca-Cola's solicitors Clifford Chance, are aiming to prevent Sainsbury infringing the company's trade marks. Goldman Sachs has also been approached.

Mr Penny Hughes, president of the Great Britain and Ireland division of Coca-Cola, said the aim of the campaign would be to persuade retailers that Coca-Cola's growth is essential for the growth of the soft drinks market. It also aims to remind consumers that it does not supply ingredients for supermarket brands and that anyone buying Coke is "buying 107 years of authenticity".

According to the marketing consultancy AC Nielsen, Coca-Cola was the top-selling grocery brand in the UK last year, with sales of £2,470m. This represents more than 80 per cent by value of the UK retail cola market, well ahead of Pepsi Cola with more than 20 per cent and supermarket labels with less than 10 per cent, said OGC Strategy Consultants.

Three years ago the Canadian company began to launch a series of supermarket sub-brands in the Canadian and North American market. Now Cott has 20 per cent of Canada's grocery market with Coca-Cola in third place.

Meanwhile Coca-Cola is believed to be unhappy that its UK joint venture partner, Cadbury Schweppes, is to bottle Cott drinks in continental Europe.



Protesters against a bypass near Bath, western England, which threatens the bronze age settlement of Solsbury Hill, clambered on construction equipment and occupied empty houses to halt the project, writes Roland Adurtham. They threatened to intensify their action to make Solsbury Hill the next campaign on the scale of Twyford Down - a sometimes bitter protest which attracted intensive publicity. Several arrests were made. Photograph: Colin Beere

Vets may defy EU over poor standards

By Alison Maitland

British vets warned yesterday they might have to break EU law by refusing to allow vets from certain member states to work in the UK unless training standards in those countries were raised.

The warning comes after a series of outbreaks of disease on British farms which have been linked to infected animals imported from the EU or eastern Europe. Vets expect these outbreaks to increase because the single market has led to a sharp rise in the movement of animals.

Livestock must carry certificates saying they are free of disease. But British vets believe these checks are not always being carried out properly in other EU states.

The Royal College of Veterinary Surgeons, to which all vets must belong in order to practice in the UK, said it was concerned about training standards in Italy, Spain and Greece. In some colleges, veterinary students could graduate "without laying a finger on a live animal throughout their five-year course".

The college, backed by Mrs Gillian Shepherd, agriculture minister, is pressing the European Commission to drop plans to withdraw funding of Ecu60,000 a year for regular visits by independent experts to all vet schools in the EU. The aim of these visits is to ensure common standards are maintained.

Since the advent of the single market last year, the number of cattle coming into the UK has increased tenfold. Comprehensive border checks on livestock imports have been abolished. But concern about the rising incidence of disease, such as viral arthritis in horses and warble fly in cattle, prompted the government in November to introduce tighter checks on imported animals once they reached their destination.

Major overhauls UK secrecy code

By James Bittz

The government announced an overhaul of the system by which highly secret government documents are classified, claiming that its reforms would reduce the amount of official information that is withheld from the public.

In a parliamentary written answer, the prime minister said he had approved new and more detailed definitions of the four categories - Top Secret, Secret, Confidential and Restricted - with which sensitive documents are classified.

The new system may help the government to allay criticisms that may emerge from the Scott inquiry into the arms-for-Iraq and which are at the heart of the inquiry into the Persian Gulf deal with Malaysia. But pressure groups and opposition MPs were sceptical

about whether it would lead to more disclosure.

At the moment, the classification "Top Secret" is blandly defined as "causing exceptionally grave damage to the interests of the nation." This is now to be replaced by a 200-word definition - including phrases like "to lead directly to widespread loss of life", which explains why the document should merit the description.

However, campaigners against official secrecy said the reform would merely give departments more elaborate reasons to withhold information when a new Code of Practice on Government is introduced in the next few days.

The code, is being hailed by ministers as breakthrough in the freedom of information, giving the public the right request factual information on government activities.

Interest rate hopes ebb on poor retail price figures

By Philip Coggan, Economics Correspondent

Disappointing inflation figures for February dashed hopes of an early cut in base rates and pushed UK share prices down sharply yesterday.

Retailers raised prices during the month, particularly on clothing and footwear, following heavy discounting in the January sales.

In London the FT-SE 100 index dropped 46.2 points yesterday to 3,155.3, a low for the year. Gift prices also dropped, with the June long gift future falling by three-quarters of a point.

The retail prices index rose 0.6 per cent month-on-month, according to the Central Statistical Office, more rapidly than the 0.4 per cent analysts had been expecting.

The headline rate of inflation, the annual rise in the RPI, fell to 2.4 per cent in February from 2.5 per cent in January, as a substantial increase in February 1993 dropped out of the annual comparison.

Analysts had been hoping that the RPI figure would fall to 2.2 per cent.

Similarly, the underlying annual rate, which excludes mortgage payments, was unchanged at 2.8 per cent compared with the consensus forecast of a fall to 2.6 per cent. The government's present target range for underlying inflation is 1.4 per cent.

Recent inflationary signals have been mixed with weak figures on producer prices in February offset by news of a small rise in the annual rate of growth of average earnings in December.

Some traders had been hoping that good inflation figures yesterday might allow the government to reduce base rates from their current 5.25 per cent. However, Mr John Marsland, economist at the broker UBS, said the "disappointing

figure puts back the date of the next rate cut".

Mr Eddie George, governor of the Bank of England, and Mr Kenneth Clarke, the chancellor of the exchequer, will hold their next monthly monetary meeting on March 30. Analysts think it unlikely that the pair will want to cut base rates without some evidence that February's inflation figures were a blip rather than a sign of an upsurge in price pressures.

The last rate cut, announced on February 8, was seen by many analysts as badly timed as it coincided with the publication of a Bank of England inflation report which referred to an "asymmetric" risk of a rise in inflation.

Mr Adrian Cooper, UK economist at broker James Capel, said the authorities would want to wait until the March inflation figures were announced (on April 15) before making a cut.

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Eggs get adverts on their face

By Diane Summers, Marketing Correspondent

From next Monday morning breakfasters will be able to read their boiled eggs, as well as their cereal boxes. British Telecommunications has taken advertising space on 13.5m eggs to promote its new daytime phone charges.

BT said the eggs, which will bear the message "Wake up to BT's new Daytime Rate", were a "cheap medium" enabling it to get over the message that the old peak charges have been abolished.

European ministers failed to agree in September last year about whether advertising on eggs should be allowed but gave the go-ahead for a two-year trial of the technique.

Agency Holmes & Marchant Blitz, which is producing the BT advertising, said the campaign was the first such large-scale promotion in Europe, although it believed egg advertising had been tried in Israel.

However, British eggs did carry a lion symbol, denoting hygiene standards, until the early 1970s.

The advertisements are printed on the eggs using a high-pressure jet blowing dots of food colouring. Over 20 packaging stations have been equipped to print the patented "Eggverts". The eggs will be distributed through supermarkets in time for Easter.

Mr Gareth John, of Holmes & Marchant Blitz said that retailers were now demanding date marking on eggs. "If consumers are to benefit from this and existing low prices, egg packers need to cover the extra cost they incur in installing the printing equipment."

Details, Page 20

Major's new Gaullism seen as synthetic affair

When Margaret Thatcher raged about Europe invariably it was a sign of weakness. The argument was running against her. She needed an outlet for her frustration.

Nothing has changed. Mr John Major's newly discovered Gaullism is a synthetic affair. He has chosen to fight Britain's partners over voting rights in an enlarged European Union because his position is weak, not strong.

That anyway was the judgment both of Tory Eurosceptics who applauded his trade this week against Brussels and of European enthusiasts who warned the party may be on the verge of another civil war. Mr Major has decided he needs the support of the Tory right - the group he courted then abandoned when they had secured his succession to No 10 - if he is to survive the summer.

The parallels with last autumn are unmistakable. Then Mr Major launched his ill-fated bid to basics initiative to rebuild bridges with his ideological enemies.

Now the prime minister who promised to put Britain at the heart of Europe is picking a fight with its partners. The European elections in June will be fought on a national platform: Britain for the British one right-wing minister suggested as an appropriate campaign slogan.

Mr Major appears genuinely determined not to give way over the size of the blocking minority. He has no qualms about relying on socialist Spain as his only ally.

Mr Douglas Hurd, whose public manner suggests that he finds the prime minister's rhetoric distasteful, cannot now sign up to any formula which looks like a retreat. Mr Major claims the bulk of

Britain in brief



Birch and Fife fields get go-ahead

The government approved the development of the Fife and Birch oilfields in the North Sea. The development of Fife, east of Aberdeen on the Scottish coast, is of particular significance, as it will use a floating production and storage system on a converted tanker - an innovative system which allows the tapping of small reserves.

Amerasia Hess and Premier Consolidated Oilfields, partners in the Fife field, will lease a vessel which will be moored over the field for the four years or so that it will take to drain the estimated 34m barrel reservoir. The vessel will be secured to the seabed by nine chains attached to undersea piles. It will rotate around a turret through which pipelines attached to the wells will pass. The ship's propulsion unit will be retained to allow it to move in very severe storms - but normal winter weather will not affect its position.

Funds increase investments

Investment by UK pension funds, insurance companies, investment and unit trusts shot up last year, reflecting the rebuilding of personal savings and a switch by savers away from cash and into securities.

The Central Statistical Office said yesterday that total net investment by institutions in 1993 was a record £32.5bn compared with £26.8bn in 1992.

Green tech surplus £234m

British environmental technology companies generate a trade surplus of £234m, a government report said yesterday. The world market for pollution control equipment and services is now worth some \$210bn. It will grow to some \$320bn by 2000 and \$570bn by 2010, the report estimates.

The UK is particularly strong in water treatment, according to the report, which is prepared by Ecotec, the consulting firm, and a research group set up by the industry and environment departments. The UK's expertise in water technology has developed as the industry's modernisation programme, which could cost some £40bn this decade.

'Superhighway' plan criticised

Mercury, the main competitor in the UK to British Telecommunications, came out against the construction of a national fibre "superhighway", but supported lifting the existing entertainment ban on BT in return for a more favourable regulatory regime.

Lord Young, chairman of Cable & Wireless, Mercury's parent company, told the House of Commons trade and industry committee that he favoured the development of competing local networks to deliver services rather than a BT fibre monopoly at the local level.

Society to cut 550 jobs by '95

Up to 550 jobs are to be axed by building society and bank giant Alliance and Leicester by 1995 under a restructuring programme, the group announced.

PO signals compromise

The Post Office is ready to accept the possible break-up of the corporation by the government with the privatisation of its mail and parcels businesses, keeping counter services in the public sector.

Post Office executives are also keen to see the counter services given greater commercial freedom so they can operate more competitively. The government may see this as a way out of the current impasse on the Post Office's future.

Norbrook lab to expand

Northern Ireland's leading pharmaceutical company is to create 235 jobs as part of a £38.4m investment programme.

The expansion of Norbrook Laboratories was announced at the company's headquarters in Newry, County Down.

Norbrook, which has plants in the Irish Republic, England, Amsterdam, America and Africa, exports to almost 100 countries.

McGuinness call for talks

The stalemate in efforts to embrace the republican movement in the Northern Ireland peace process was underlined yesterday by Mr Martin McGuinness, a senior member of Sinn Féin, who ruled out progress without face-to-face talks involving the British government.

Rover plans Bulgarian production

By Kevin Done in London and Virginia Marsh in Bucharest

Rover group is aiming to begin assembly of its Maestro car and van range in Bulgaria by the end of the year.

The UK carmaker, a subsidiary of BMW of Germany, said last night that it expected to set up a joint venture company with Bulgarian banks and other local partners within six months.

Rover plans to cease production in the UK of the 11-year-old Maestro, a small family car first launched in 1983, in the autumn this year.

The Maestro assembly line equipment will be shipped

from Rover's plant at Cowley, Oxford to a plant at Varna on the Black Sea.

Rover said that the Maestro would be assembled in Bulgaria from CKD (completely knocked down) kits supplied from Cowley.

It is planning to produce up to 10,000 Maestros a year in Bulgaria with a significant share of the output to be exported to other markets in east Europe.

Rover is expected to take a significant minority stake in the joint venture, which would be secured through the provision of the car and the transfer of technology. It would not make any finan-

cial contribution to the venture, the company said last night.

It is planned that the joint venture would produce both car and van derivatives of the Maestro range and both would be equipped with the 2 litre diesel engine currently fitted in both the Maestro and Mondeo ranges in the UK.

A 12-man team from Rover is currently in Bulgaria investigating the plant in Varna, where the Maestro will be assembled. "We are going to strip out the plant and re-fit it," the company said last night.

"We hope to have set up the joint venture company within

six months," said Rover last night. "And we hope to start production by the end of the year." Rover has already established a representative office in Sofia.

● Dagenham Motors, the south-east of England Ford dealer group, is raising \$9.9m through a 240-5 rights issue, its first share issue since the company was floated in 1983. The group increased its pre-tax profits by 56 per cent last year to £2.35m (£1.43m) for the year to December 31 ending four years of decline. Before the recession profits peaked at £4m in 1988.

TECHNOLOGY

Xerox pioneered much of today's PC technology. Its latest work could be as influential, says Tom Foremski

The power to invent the future

If Xerox, the US document-processing company, had turned all its bright computer ideas into money, it would be one of the richest and most influential companies in the world.

Located in the heart of Silicon Valley, California, the Xerox Palo Alto Research Centre (PARC) did the pioneering work for much of today's personal computer technology. This included the first personal computer, graphical user interfaces (the link between the user and the computer) featuring icons and a mouse, laser printers, local area networking and object-oriented computer languages for faster software development.

Now, two decades after its foundation, Xerox PARC is working on projects that could become as influential as its earlier efforts. But this time, it is determined not to let them slip through its fingers and be exploited successfully by others.

Under the leadership of Xerox's chief scientist, John Seely Brown, the research centre continues to be a breeding ground of innovative ideas that could change the way people use and interact with computers. Paul Saffo, a research fellow at the Institute for the Future, a technology think-tank in California, says Brown and his colleagues at Xerox PARC are "producing some of the most innovative ideas around."

Xerox likes to be known as "the document company". It might seem strange for a business focused on paper and photocopiers to pioneer computer technologies that have

promised the "paperless office". But personal computer technologies have increased the use of paper: graphical user interfaces make PCs easier to use and cheap laser printers have helped to generate more paper documents than before.

"Our mission at PARC is to find novel ways of handling the document," Brown explains. "We recognise that the document is essentially a social artefact."

This has led to technology such as PaperWorks, which can embed computer instructions invisibly within paper documents, thus bridging the gap between paper and electronic documents.

It has also led to the development of advanced computer display screens that have many of the same qualities as paper documents. Xerox PARC's active matrix liquid crystal display screens have very high resolutions, better than laser-printed paper documents.

With its partner, AT&T, Xerox PARC is developing commercial versions of the LCD screen in a way that could revitalise the LCD industry in the US and win back market share from Japan.

But it is the acknowledgement that there is a social dimension in the way computers are used that is producing some of the most interesting developments at Xerox PARC.

"One of the themes here is how to use the tremendous advances in computer technologies in a way that will bring simplicity to life and not just keep adding features and complexity that cause people to feel

overwhelmed," Brown says.

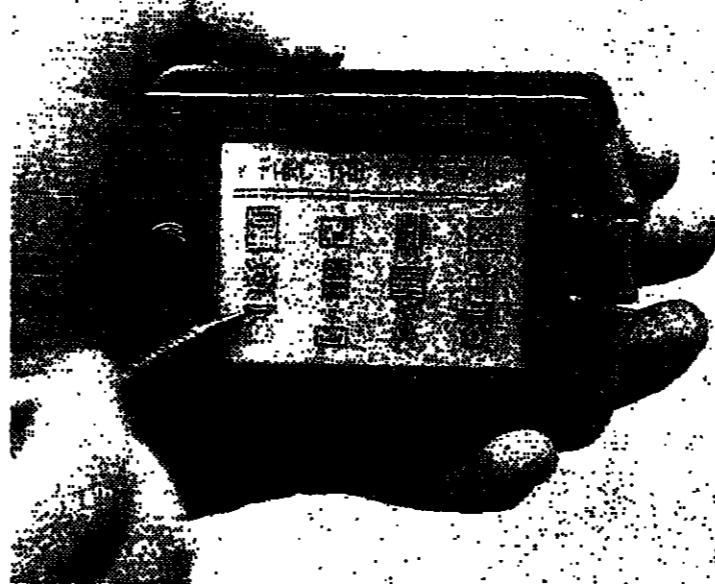
To make computers more effective, the user interface must be improved. The best computer interface, as far as Brown and his researchers are concerned, is one of which they are hardly aware.

Last year, Xerox introduced the LiveBoard, an electronic whiteboard or chalkboard. Linked by telephone lines or a network, people in remote locations can draw and write on the 67in-wide LiveBoard screen during collaborative work sessions. "The LiveBoard is what I like to call 'shoulder-to-shoulder computing'. I've seen people use it and forget that they are using a computer system," Brown says.

"It is part of our goal to build computer systems that support a distributed workplace, with the same kind of social dynamics that we are used to."

The LiveBoard is part of a concept known as ubiquitous computing. It envisages a workplace in which people are surrounded by hundreds of computers. Some are tiny, like the ParTab, about the size of a Post-it note, while others are no larger and only slightly thicker than a sheet of paper.

Workers in this office of the future would wander around with a small computer ID badge. Through infra-red connections, the badge would announce them to all the nearby computer devices in their vicinity. It would not only trigger automatic doors, but also identify users to the computers. During a meeting, for example, an office



On hand: Xerox envisages a workplace bristling with computers such as ParTab

worker would be able to use whatever computer device was nearby to do work, receive messages from colleagues and send out requests for information. This would essentially take the "personal" out of personal computer.

Brown explains that providing information to workers at the right time and "capturing" their knowledge will be of key importance for companies. This is where adaptive learning comes into play. Brown is the founder of the California-based Institute for Research on Learning, which addresses the problems of lifelong learning and how that applies to corporations as well as individuals.

"There are 100,000 people at Xerox. Each one of us is learning and inventing every day. If you want to master the enterprise, you have to develop technologies that capture that knowledge in ways that can be used to benefit the organisation," Brown says.

With fast-changing markets and increasing demands for employees

to master new skills, the ubiquitous computers become essential tools that create what Brown calls a "knowledgebase". Computers become gateways for tapping an organisation's knowledge base and also adding to it.

Like other computer companies, Xerox PARC is also interested in ever smaller computers. But its focus extends beyond palm-top computers to the molecular level, a science known as nanotechnology. This borrows some of the techniques used by makers of silicon chips except that instead of making electrical circuits, microscopic mechanical machines can be constructed.

The key to developing effective nanotechnologies is being able to manipulate individual atoms and molecules. Xerox PARC researchers claim that with such precise control, it would be possible to build a computer no larger than a sugar cube that would be more powerful than all the world's computers combined. That, however, is still some way off, even for Xerox PARC.

innovations. It has a venture capital division which helps to set up spin-off companies such as ParPlace Systems, the developers of the object-oriented SmallTalk language.

Xerox has also entered into partnerships with other companies - as with its LCD technology - to develop commercial products. It has licensed its technology and formed new divisions, like the Xerox Advanced Office Document Systems division, which is developing commercial products based on its "smart paper" technology.

Legislation drives the innovators

Clive Cookson on optimism among environmental innovators

The environmental technology industry - which is growing so rapidly that its sales may exceed world chemicals production by the end of the century - is holding its showcase UK exhibition this week.

UK companies lag well behind their competitors from Germany, Japan and the US in the world environmental technology market. According to a recent OECD report this market is worth \$200bn (£140bn) a year, with growth projected to between \$300bn and \$500bn by 2000.

Even so, the 300 exhibitors at the ET94 show in Birmingham were in optimistic mood. Many believe that the fledgling UK industry is on the brink of an export breakthrough, with continental Europe the main target. Exhibitors agreed that growth in all sectors of the market - air pollution control, water and effluent treatment, and solid waste management - was driven primarily by legislative requirements.

"If the UK enforces decent environmental legislation, it gives a great stimulus for us to develop the technology and then use our home market as a base for expansion into Europe," says William Averdieck, managing director of Pollution Control & Measurement Europe.

PCME was founded in 1990 with private funding to commercialise an innovative dust emissions monitoring system. The monitor works by detecting the transfer of electric charge from dust particles to a probe in the factory chimney. It is particularly suitable for measuring low dust levels in small smokestacks.

There have been two vital ingredients in PCME's success. Averdieck says. One was the demand created by the 1990 Environmental Protection Act for industrial dust monitors. The other was a grant from the Department of Trade and Industry's Environmental Technology Innovation Scheme to develop the product in collaboration with Imperial College, London, and Johnson Matthey, the metals group. Now PCME's D-Tech dust

monitor has 60 per cent of the UK market for small-stack monitoring equipment and export sales are growing. At ET94 this week, the company launched its first product for the traditional "large stack" market, including power station chimneys. It uses "optical scintillation" technology to measure dust levels from the variation in a light beam across the chimney.

However, not all the innovations at ET94 came from new companies. Montec, a 20-year-old company bought last year by Northumbrian Water, has developed a monitor for low volumes and flows of liquid effluent.

Bryan Jackson, Montec sales engineer, says this market is driven by the National Rivers Authority's policy of making companies pay to discharge effluents into rivers and fining them for unauthorised discharges.

Another feature of ET94 is the number of UK government agencies that are selling environmental services. They include AEA Technology, the Meteorological Office, Natural Environment Research Council and Adas, the farm advisory and research service.

The latter carried out £42m worth of environmental consultancy last year, according to Chris Stanfield, Adas head of land development. It expects to pick up more business from the Waste Management Licensing Regulations which become law on May 1. They will drive up waste disposal costs and make it more attractive to recycle waste or use it on the land.

Colin Rudd, Adas waste management consultant, says: "It will certainly pay producers to conduct feasibility studies in their waste disposal options now."

Four years of Adas tests and evaluations have borne fruit for National Power and PowerGen. These show that gypsum - a mineral produced in large quantities by "true gas" desulphurisation plants from coal-fired power stations - can be spread on fields to improve the soil, rather than dumped in expensive landfill sites.

More than computer experts

Xerox PARC was founded in 1970 and quickly established a reputation as a hotbed of new computing ideas. The company hired experts not only in computers but also in other disciplines such as linguistics, anthropology, psychology and social sciences.

About a third of the 325 researchers have no academic qualifications in computer science or electrical engineering. Xerox PARC owes much of its creativity to its campus-like setting and a very informal atmosphere.

Peter Redford, an electronics

engineer and president of TV Interactive, worked there in the 1970s. "It was an incredible place. If you ran into a problem, you could talk with all kinds of people in different fields. People would walk around barefoot and work 20 hours per day. It was a very comfortable work environment, like working at home," he said.

While Xerox PARC developed cutting-edge technologies, its parent group was not very good at

marketing them. But others had little trouble in making money out of ideas born at Xerox PARC. When Steve Jobs, then head of Apple Computer, and Apple engineers visited Xerox PARC in the late 1970s, they were amazed. They saw workstations with graphical user interfaces equipped with a mouse. Jobs is reported to have asked: "Why aren't you marketing this?" He had glimpsed the future and began to assemble a team to create a new

Apple system. The team's work led to the Macintosh computer.

Other companies also benefited from the technology at Xerox PARC, including laser printer makers like Hewlett-Packard, and Microsoft with its Windows graphical user interface. Xerox PARC staff have gone on to found their own companies or direct technology development at large computer concerns.

Xerox has learnt from its mistakes in not capitalising on its

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The vessel shall have the following characteristics:

- cargo capability of 2,000-4,000 cu. m. in the holds, for containers, material in bulk, vehicles, components and equipment;
- lifting devices, i.e., winches, cranes and frame cranes (at least one of them should have a lifting capacity of about 35 ton.). The lifting devices should be distributed along the full length of the vessel, in order to service the entire hold;
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- available space for installing and operating 5 oceanographic winches at the stern, 2 on the port side and 2 on the starboard side;
- possibility of installing on the hull, in appropriate locations, electroacoustic and/or optical transducers;
- equipment necessary to comply with the requirements of the Antarctic Treaty and the Madrid Protocol on Environmental Protection in Antarctica.

More information is available in the technical specifications which will be sent on request.

Companies which believe they have one or more vessels having the aforementioned characteristics can send to ENEA their applications in Italian or in English, in order to be invited later to send a technical-financial tender.

The applications shall be sent together with the following documents:

- description of the vessel with general characteristics;
- declaration of the legal representative of the company stating the experience in polar areas, with a list of such experiences;
- declaration of the legal representative of the company, stating that the company has, in the period Sept-April from this year and for the three following years, the actual availability of the vessel.

ENEA, after making the selections, will send a draft contract with the detailed procedure of the negotiation and the technical and functional specifications of the vessel, on the basis of which the technical-financial tender must be compiled. Applications shall be sent to arrive by 12.00 a.m. on 13 April 1994 at the following address:

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MANAGEMENT: MARKETING AND ADVERTISING

Is Kingfisher's unexciting performance down to its strategy of permanently low prices, asks Neil Buckley

Potential cost of selling it cheap every day

Is everyday low pricing the right retailing strategy for the 1990s?

Yesterday's relatively lacklustre UK results from Kingfisher - the Comet, B&Q, Superdrug and Woolworth group - raises a question of growing interest to City analysts and competitors in the retailing industry.

Kingfisher unveiled a jump in 1993 pre-tax profits from £205m, before exceptional items, to £209.3m - apparently a strong performance. But much of the gain came from last year's £1bn acquisition of French electrical retailer Darty, without which earnings growth since 1990 would have been unexciting.

The blame in some quarters is being put on the strategy promoted by Sir Geoffrey Mulcahy, Kingfisher chairman, of cutting prices, which has resulted in lower margins but disappointing volume growth. Sir Geoffrey, however, is adamant that the approach is sound, but that it needs time.

"The combination of a shift away from promotions and sales to everyday low pricing, stronger merchandise ranges and significantly improved customer service generally resulted in promising increases in like-for-like sales," he insists.

Everyday low pricing dates back to the start of modern retailing last century, to Woolworth's "Five and dime" stores in the US or Marks and Spencer's penny bazaars in the UK. There have always been "discount" retailers concentrating not on high margins, but on selling large volumes of goods as cheaply as possible.

What refocused attention on the potential of that approach in the late 1980s - especially in the US - was the huge success of discount chains such as Wal-Mart and Kmart, and other new formats such as warehouse clubs, or "category killers" like Toys R Us, whose central philosophy is EDLP.

The theory is that in chains which tightly control costs, lower prices should increase volumes and market share, generating increased profits and buying

DOES THAT MEAN THEY ALWAYS HAVE A SALE ON OR THEY NEVER HAVE A SALE ON?



power which can be used to cut prices further - the so-called "virtuous circle".

Other retailers experimented with a consistently low-price stance. The shift to EDLP was given further impetus in the US when the consumer goods giant Procter & Gamble decided in 1991 to adopt an EDLP approach in supplying retailers, ending "trade allowances" - periodic discounts to retailers to allow them promote brands at lower prices.

By mid-1992, one US survey found six out of 10 packaged-goods manufacturers and almost half of all retailers had implemented or tested EDLP.

Now EDLP, value pricing, or "investing in margin", are becoming buzzwords among UK retailers - partly in reaction to the recent influx of US and continental European discount formats.

Kingfisher has been the most vocal proponent, although Sir Geoffrey's EDLP campaign kicked off in earnest only a year ago, with the introduction of permanently reduced "key lines" in his chains. Some retail experts support his claim that it is too early to judge the results.

"They argue customers are slow to pick up the low-price message on high-ticket products purchased only infrequently - such as those in Kingfisher's B&Q DIY chain or Comet electrical chain.

Critics counter that the results of EDLP should have been seen more quickly in lower-ticket chains such as Woolworth. They

also point to the apparent success of EDLP elsewhere.

One example is Marks and Spencer, which has not referred to it as such, but which some analysts argue has effectively adopted an EDLP approach. Its "Outstanding Value" campaign, launched in autumn 1992, froze the price of 75 per cent of its products, and reduced the price of the remainder.

The campaign brought a significant increase in volumes, attested to by M&S suppliers, and a 21 per cent increase in profits in the latest half-year to £308m.

Moving to permanently low pricing has been central to the recovery of the Asda and Gateway grocery chains, after both ran into difficulties in the early 1990s. Asda was reported last week to be strengthening its commitment to EDLP with a call to its suppliers to move away from periodic discounts towards consistently lower prices.

Yet, strangely, a limited move to EDLP does not seem to have worked at the UK's biggest grocer J Sainsbury, which indefinitely cut the price of 300 own-label products accounting for 10 per cent of sales last October. The result, revealed in January, was a 0.4 per cent drop in gross margin and a 1 per cent underlying fall in sales.

Analysts suggest that Sainsbury's move, like Kingfisher's, suffered from poor marketing.

Yet both ran higher-profile campaigns than Marks and Spencer.

"I am still convinced EDLP will play a major role in UK retailing in the 1990s," says Richard Hyman, director of retail research group Verdict. "Kingfisher has taken an important step in introducing it into its corporate strategy."

Whether or not such predictions come true, it is already clear that simply cutting prices may not bring customers streaming through the doors. Getting the range of products and customer service right, and effectively communicating the message to consumers, are an integral part of the process.

The world has changed. We used to market to pharmacists, physicians and hospitals. Now it will be governments and companies. We must do more than show that a drug is safe and works. We must demonstrate it has a good economic outcome.

These are the words of Jan Leschly, incoming chief executive of Anglo-US drugs company SmithKline Beecham, at last month's annual results presentation. He was outlining an important transformation in drugs company marketing: the recruitment of economists.

The world's drugs companies spend at least \$20bn (\$2.2bn) a year on sales and marketing, according to analysis by the stockbroker Lehman Brothers. The figure represents about one-quarter of their total sales revenue and more than twice as much as they devote to research and development.

The money is devoured by fleets of sales executives - big names such as Merck, Glaxo and Pfizer have more than 1,000 in the US alone - as well as by large budgets to advertise in medical journals. Making money in pharmaceuticals has long been about persuading doctors to give up the tried and tested in favour of something new. But that is not enough any longer. Government healthcare reforms around the world, designed to tighten controls on spending, have already cut drug prices in Japan and sales in Europe. Some drugs are no longer available on national health services. Others have had price cuts imposed.

In the US, the world's biggest market with about one-third of global sales, the pharmaceutical industry is not only learning to cope with deal-minded hospital chains and insurance companies, it is bracing itself for the Clinton administration's reform of the drug industry.

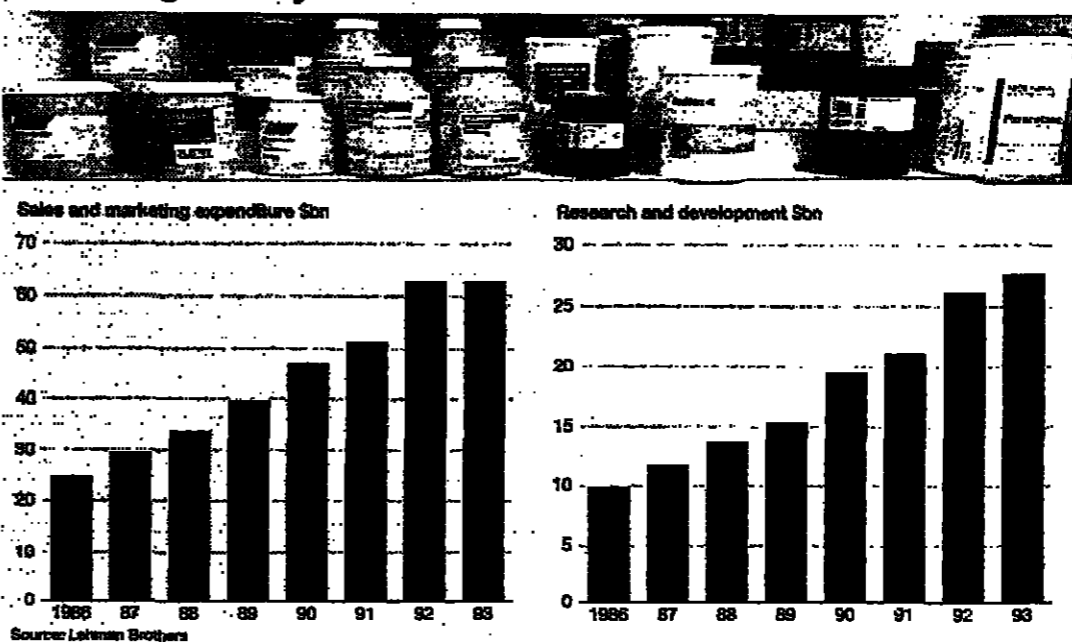
Drug companies have concluded that they need to convince the organisations which pay - governments, employers or insurance companies - that a particular drug offers good financial value.

Sandoz, the Swiss company, for example, has formed a core group of three economists at its Basel headquarters and several more are employed in subsidiaries outside Switzerland. They write studies on the economics of different courses of treatment. Sandoz publishes some of them, others are submitted to learned journals.

"The pharmaceuticals industry is being increasingly forced to use the tools of health economics," says Bill Fulliger, head of corporate marketing at Sandoz.

"Buyers increasingly require a demonstration of value for money. It is not public relations, [it is applicable] anywhere there is a competing demand for health sector funds such as [a decision between] a hip

World drug industry



Source: Lehman Brothers

Economists in the salesforce

Drugs companies are focusing their sales efforts on the financial implications of treatments, says Daniel Green

operation or a kidney transplant," he adds.

Fulliger argues that the work has already helped to persuade many healthcare buyers that a kidney transplant, for instance, is cheaper than kidney dialysis when costs are compared over the longer term. Sales of the company's drug Sandimmune, which cuts the chances of a new kidney being rejected, are worth more than \$500m (\$500m) a year. It is now the company's biggest selling product.

Glaxo, Europe's biggest drugs company, is using pharmacoeconomists slightly differently. It first employed them in the US in 1989 and the idea is now being transplanted to Europe. The company currently employs about 50 people in the field.

The Glaxo pharmacoeconomists are part of its R&D function: last year the company split R&D into basic research and "commercial development".

The economists work in both groups and the results are used to determine how "sellable" to payers a drug under development is likely

to be, and in the selling process itself.

Glaxo says its economists are not trying to measure human health in cash terms. Greg Boyer, a pharmacoeconomist on secondment from Glaxo in the US to the UK operation, talks of persuading governments of the cost benefit and of "the value to society" of a new drug.

"We want to be sure that we don't limit ourselves to pounds and dollars. We want to study the whole patient outcome, to capture patients' ability to do productive work," says Boyer. This would mean examining the economic benefit to a society of using drugs. Would, for example, the sick-pay bill be reduced, as well as the more direct costs of nursing?

Involving the effect of drug prescribing on society as a whole is an ambitious goal and not one to which buyers are necessarily sympathetic. Governments such as Australia's, which requires an economic analysis of a drug as well as clinical data to be submitted for approval, exclude reference to the benefits for

society. "Governments are reluctant to allow that kind of information to get to the negotiating table," says Boyer. It is easier to look at the bottom line of a hospital pharmaceuticals budget than the cost to a country of a treatment, he says.

This has not stopped SmithKline Beecham going down the same route. Bob Demarins, head of outcome research and pharmacoeconomics at SmithKline's Beecham's Pennsylvania offices, says evaluating the widest possible economic impact is an essential part of his work. His team of eight people works at all stages from R&D through to the commercialisation of a drug.

Healthcare buyers increasingly demand to know what the effect on their overall finances will be when they opt for one drug or another, he says.

SmithKline Beecham is recruiting more pharmacoeconomists where it can find them. The task is not easy: at least one other large pharmaceuticals company admits that the shortage of qualified people is such that it has to train them inhouse.

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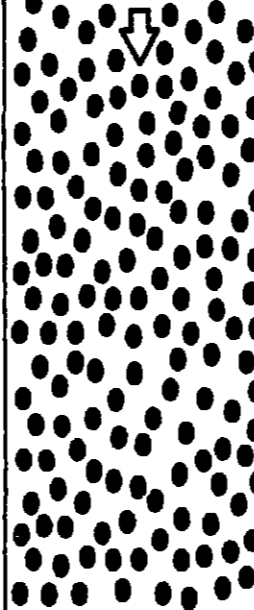
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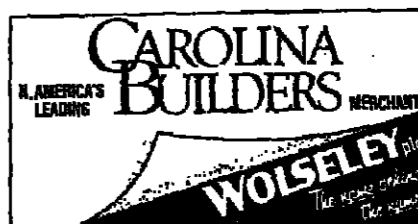
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FINANCIAL TIMES

Thursday March 24 1994



ANC sets collision course with Buthelezi over Zulu homeland

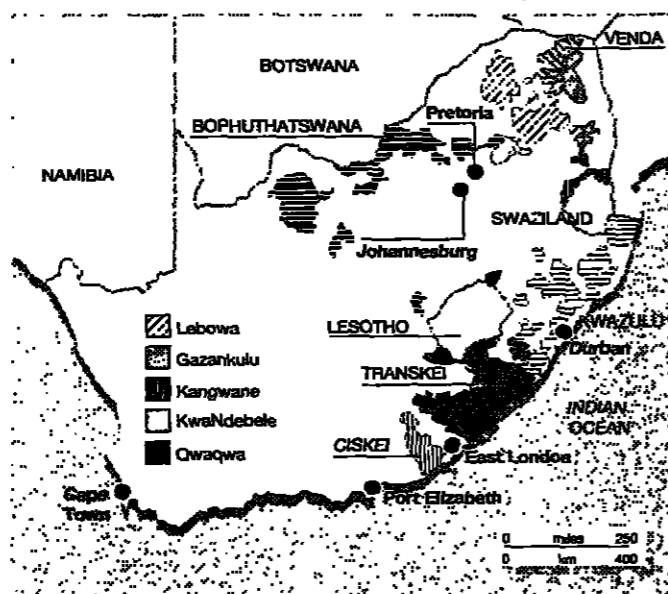
The African National Congress called on South Africa's multi-party Transitional Executive Council yesterday to take over the administration of the KwaZulu black "homeland" from Chief Mangosuthu Buthelezi, putting the ANC and the Chief's Inkatha Freedom party on a collision course.

The call, from ANC deputy secretary-general Jacob Zuma, the highest ranking Zulu in the ANC, represents a significant hardening of the organisation's position on KwaZulu, the only one of the 10 black homelands which continues to offer political opposition to the ANC. Asked whether the ANC-dominated TEC, which oversees government in the run-up to elections, should send in troops to remove Chief Buthelezi from power, Mr Zuma replied: "Why not?"

The TEC said on Tuesday night it would take all steps to ensure free political activity in KwaZulu/Natal, where some 85 people have died since the weekend. Inkatha supporters have prevented ANC election rallies and made voter education in KwaZulu almost impossible. Chief Buthelezi said last night he would allow the Independent Electoral Commission to prepare for elections in the homeland, but he has given such assurances in the past without persuading his supporters to respect them.

Mr Zuma said the TEC should cut off government funding to KwaZulu, which is a semi-autonomous "self-governing territory" within South Africa but receives all its funds from Pretoria. The ANC would tomorrow launch a campaign of mass action aimed at demonstrating that Mr Zuma's appointment of Chief Buthelezi to the TEC was a betrayal of the ANC's anti-apartheid stance, he said. The campaign would

Patti Waldmeir in Johannesburg reports on a rise in tension ahead of April's poll



ANC officials, clearly excited by their victories in Ciskei and Bophuthatswana and angry at Chief Buthelezi's campaign to prevent elections in Natal, yesterday adopted a more belligerent tone towards KwaZulu.

One senior official, normally a moderate, said: "Buthelezi must learn the lesson of Bop. The KwaZulu police, the youth and the civil service - the same forces which brought down the Bop government - are present in KwaZulu: the time has come for them to stand up and be counted." He added that the ANC only needed "a trigger" to provoke Buthelezi's departure within weeks.

All homelands, including KwaZulu, will cease to exist after elections. But ANC officials said they could not wait for the poll before removing Chief Buthelezi: too many people were being killed in his campaign to prevent voting, they said, adding that they were determined to ensure participation in the poll.

But KwaZulu differs greatly from the other homelands where unpopular leaders have been toppled. Chief Buthelezi commands significant support and he is unlikely to crumble as other homeland leaders have done.

But thousands of KwaZulu police and civil servants depend on their salaries and pensions on funding from central government, which will be controlled by the ANC after April. The next few days and weeks will tell whether they decide to revolt.

The ANC has eliminated all opposition from other homeland governments, widely vilified as the creations of apartheid. Other governments have either been ousted as a result of popular pressure orchestrated by the ANC - Brigadier Oupa Gqozo was removed from power in the Ciskei homeland on Tuesday night, and President Lucas Mangope of Bophuthatswana was deposed 10 days ago - or they

begin with a mass march in Durban on Friday and continue with civil servants' protests.

International mediation of constitutional issues would continue, Mr Zuma said - ANC sources said yesterday that former British foreign secretary Lord Carrington and former US secretary of state Henry Kissinger would be asked to mediate - but results would probably not come soon enough to resolve the crisis.

S Korea warns it will invade if attacked by the North

By John Burton in Seoul

South Korea yesterday issued a veiled warning that if North Korea staged an attack, Seoul would respond by invading the North to overthrow the government of President Kim Il-sung. "Our strategy is that, depending on the type of North Korean armed provocation, we would make it an opportunity to realise unification," Mr Rhee Byung-tae, the defence minister, said. "There are no signs that North Korea will launch a provocation soon," he said, but added that North Korean forces had intensified their training recently. "We cannot rule out the possibility if the UN Security Council starts deliberating sanctions."

The US and South Korea are now considering holding their joint Truce Spirit military exercise some time this spring or summer, with late April being the earliest date, he added. The

timing of the exercise is being determined by the arrival of 48 US Patriot missile launchers, which are not expected until mid-April. They will join the exercise. Mr Rhee said North Korea had only limited time to drop opposition to international nuclear inspections if it wanted to stop Team Spirit. North Korean officials said yesterday that holding the exercises would be interpreted as a provocation. However, Mr Rhee said: "Once the government officially announces the resumption of Team Spirit, it will be difficult to suspend the exercise again."

Mr Han Sung-joo, South Korean foreign minister, said the key to resolving the nuclear dispute lay either in UN sanctions or securing China's co-operation in persuading Pyongyang to accept inspections.

Neither South Korea nor the US intends to compromise on the basic issue of full inspections

with North Korea, including the resumption of inter-Korean talks on mutual inspections as well as unrestricted access to the International Atomic Energy Agency. South Korean president Kim Young-sam will leave today for six days in Japan and China to seek support in resolving the nuclear issue. His visit to Beijing, which begins on Monday, is the most crucial stage of the trip since he will ask Chinese president Jiang Zemin to intervene with North Korea in the dispute. China has expressed opposition to sanctions.

In a mixed message, North Korea said yesterday it was prepared for new negotiations as well as for armed conflict. "As we have declared time and again, we are fully prepared to answer dialogue with dialogue and war with war," it denounced deployment of Patriot missiles, accusing the US of bringing the Korean peninsula "to the brink of war".

Two-tier EU voting proposed

Continued from Page 1

a platform with the UK that threatens to delay the enlargement of the Union.

Foreign minister Mr Javier Solana said he held out "scant hope" that there would be a compromise over voting rights in the expanded Union when the EU foreign ministers meet in Greece on Saturday.

He dismissed speculation that Spain, which has specific interests such as the protection of Mediterranean farm produce, would abandon the UK in what has so far been a joint opposition to changes in the EU's current blocking vote rules.

The UK's policy, which has in the past been at odds with Spain's characteristic Euro-enthusiasm, is viewed as a more blanket opposition to the decision-making process in Brussels.

THE LEX COLUMN

Sinking in the trough

Tighter money in the US has made financial markets there supremely sensitive to any signs of rising inflation, and the obsession seems to be spreading. Yesterday's UK inflation figures played into the hands of the Jeremiahs, though the disappointment was largely superficial. There has been some faintly worrying background noise in the housing market, on average earnings and commodity prices, but producer price inflation is still depressed and the 0.6 per cent monthly jump in February's retail prices index owed much to the end of the January sales. Since the retail sales figure for that month was weak, higher prices in the shops may not stick.

Yesterday's figures need not undermine expectations of a further fall in the headline rate of inflation later this summer. But the conclusion on interest rates is different. The authorities would suffer a serious loss of credibility if they cut rates on the back of yesterday's figures. Next month's data will be perilously close to the European and local elections. Cutting rates then would invite the charge of political influence on monetary policy.

The hope must be that the economy has enough momentum to shrug off next month's tax rises. If so, the eventual judgment will be there was never any need for another base rate cut anyway. But growth cannot continue indefinitely without some pressure on prices. Barring a serious hiccup in the recovery, the trough in rates may have been reached. Yesterday's 46-point fall in the equity market suggests this point is finally sinking in.

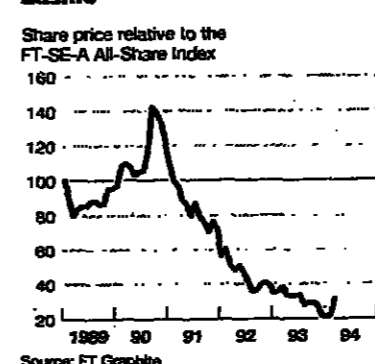
Kingfisher

Marks and Spencer's surging profits are living proof that Kingfisher's everyday low pricing strategy works. Sadly, there is as yet little evidence that it works at Kingfisher. Last year operating profits in the main UK retailing businesses actually fell by 3 per cent, despite all the buffing and puffing. B&Q is a central plank of the EDLP idea, yet profits here will probably be lower in 1996 than they were in 1990. Group earnings may rise by no more than 10 per cent in 1994 and 1995, which goes a long way towards explaining the heavy de-rating of the shares since the turn of the year.

Perhaps Kingfisher simply has the right strategy and the wrong businesses. Electrical retailing offers a high return on capital in out-of-town locations, but most store chains are

FT-SE Index: 3155.3 (-46.2)

Lasmo



Source: FT Graphics

still dogged by their expensive high street shops. If they are eliminated, returns may fall. Superdrug has a weak position against Boots, and may also be squeezed by the food superstores. Woolworths is trying EDLP, but in many of Woolies' specialities, out-of-town chains such as Toys 'R Us are more effective players of the EDLP game. If Woolworths did not exist, it would probably not be necessary to invent it.

Faced with a difficult hand, at least the company is doing most of the right things. Mr Alan Smith, the new chief executive, is strengthening the management team and installing better systems. There may well be a revolution going on at Kingfisher. EDLP may work. But it will be quite a while before shareholders find out whether it is going to benefit them.

Institutional investment

The government's institutional investment figures for the final quarter of 1993 bear all the footprints of fund managers stampeding into the fashionable assets of the day. There was strong net investment in overseas securities and property as investors scrambled to fulfil the targets set by their asset allocation committees. It is perhaps little surprise that many overseas markets have proved groggier since and property shares have paused for breath.

Institutional liquidity will be fuelled again this year by rising dividends, the ending of many pension fund holidays and strong sales of single-premium investment products by the life insurance sector. Theoretically, that should help UK financial markets.

With cash inflows remaining high and the rate of gilts and equity issuance dropping sharply, markets should be squeezed higher by the sheer weight of money. The inflow of fresh funds into institutions may reach £50bn this year while the government's funding requirement will drop from £50bn to £38bn. The flow of rights issues has abated; flotations are only likely to absorb part of that shortfall.

But that happy investment scenario tends to overlook the influences on the existing owners of stocks and assets. Hedge funds have been pruning their holdings and overseas investors have turned tail in the gilt market. UK institutions may be flush with cash this year but the signs are they will have to take up a lot more of the running.

Lasmo

It is difficult to quibble with Lasmo's decision to pass its final dividend. With development expenditure set to remain high over the next three years and the oil price at rock bottom, the company is being squeezed. Exploration spending has already been scaled back to £50m a year, probably not enough to replace reserves now being drilled. Gearing could rise above 100 per cent - counting Lasmo's US preference shares as equity - before Liverpool Bay and other development projects come on stream. In that context the £20m cash cost of the dividend was a burden.

Gearing would be less of a worry if Lasmo's balance sheet understated the true value of its assets, as is often the case with oil companies. But even after yesterday's write-downs, the suspicion remains that more will be required. Having replenished shareholders' funds with dollar prets last year, the company is comfortably above minimum net worth covenants imposed by its bankers. Should oil prices dictate further write-downs, though, Lasmo's management might feel more comfortable with an infusion of real equity.

The snag is that shareholders would have little incentive to subscribe under those circumstances. Despite all its good work last year reducing overheads and disposing of high-cost production - yesterday's sale of its interest in the Ninian field is a case in point - Lasmo requires a material recovery in the oil price if it is to flourish. It is hard to see the shares outperforming until that is in prospect.

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FT WEATHER GUIDE

Europe today

The zone between cool air in the north and mild air in the south will cause cloudy and rainy conditions over northern France, southern Germany, southern Poland and western Russia. North of this zone, there will be sunshine and scattered showers, but western Scotland, northern Ireland and south-west Norway will have showers, and occasional hail showers. The Scottish coast and the North Sea area will have gale force winds from the west. The central and northern districts of Scandinavia will have wintry conditions with some snow, especially in Finland. It will be sunny in the Mediterranean area and the Balkans will have occasional sunshine and broken cloud.

Five-day forecast

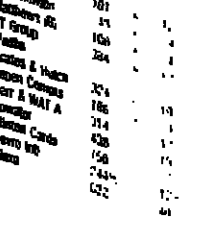
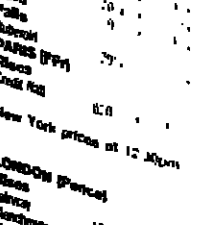
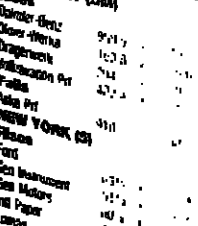
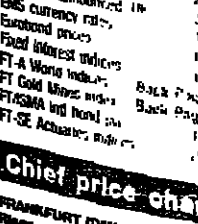
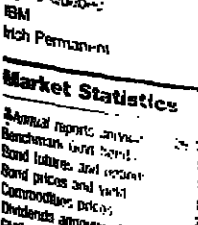
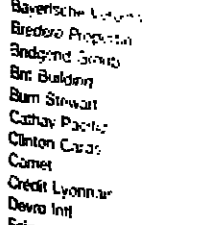
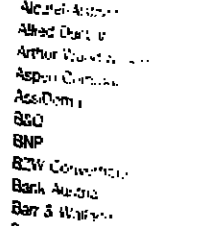
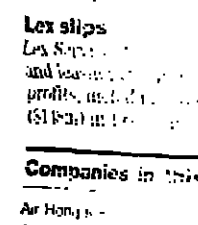
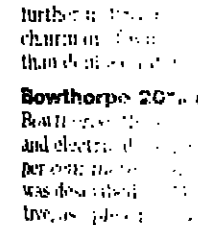
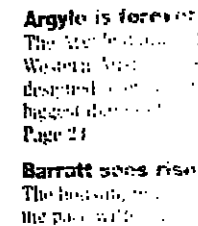
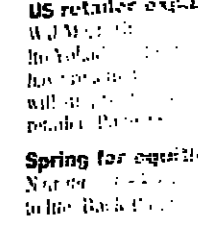
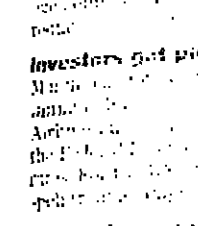
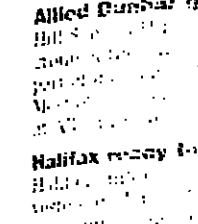
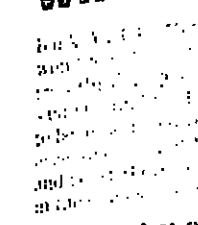
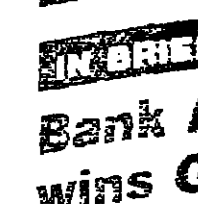
Conditions on the continent will remain unsettled as far south as the Alps, but will improve during the weekend, with sunshine and mild air. The UK will have fair conditions on Saturday, but on Sunday cloud and rain will arrive from the west. Unsettled conditions will persist in Scandinavia, though it will be warmer. Southern Europe will remain dry with plentiful sunshine, although scattered showers will fall in Spain on Sunday.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	32	Cardiff	10	Frankfurt	16
Accra	32	Chicago	11	Geneva	16
Algiers	24	Cologne	14	London	14
Amsterdam	11	Dakar	25	Madrid	14
Antwerp	11	Dallas	25	Moscow	12
B. Aires	17	Doha	31	Munich	12
Bombay	22	Dubai	28	Nairobi	20
Buenos Aires	11	Havana	23	Paris	14
Calcutta	31	Jersey	20	Rome	14
Cairo	21	Kuala Lumpur	25	S. Francisco	14
Cape Town	22	Lima	24	Seoul	14
Cebu	29	Lisbon	14	Singapore	30
Dhaka	29	London	14	Stockholm	6
Delhi	29	Luxembourg	14	Taipei	20
Dubai	28	Madrid	14	Tokyo	12
Durham	12	Manila	27	Toronto	8
Edinburgh	10	Montreal	20	Vancouver	12
Farø	22	Moscow	12	Vienna	22
		Mumbai	28	Warsaw	15
		Nagasaki	12	Washington	21
		Nassau	24	Wellington	14
		New York	12	Winnipeg	0
		Nice	18	Zurich	19
		Nicosia	24		
		Osaka	14		
		Paris	14		
		Prague	14		
		Rangoon	24		
		Reykjavik	22		

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INTERNATIONAL COMPANIES AND FINANCE

Bank Austria wins battle for control of GiroCredit

By Patrick Blum and Ian Rodger in Vienna

Bank Austria, the country's largest bank, has won the battle for control of GiroCredit, the country's third largest bank, banking sources in Vienna said last night.

The takeover, which was due to be announced next week, will help reduce excessive competition in Austria's financial sector and lift Bank Austria's relatively weak presence in the domestic capital markets.

The outcome followed quickly after the threat on Monday by the four executive directors of GiroCredit to

resign when their contracts expire at the end of June.

The executives said they acted out of frustration with the stalemate over strategy on the bank's supervisory board. GiroCredit is owned by Austria's savings banks, which use it as a central clearing organisation.

The two largest savings banks groups, Bank Austria and First Austrian, with 30 per cent and 20 per cent stakes respectively, have resented GiroCredit's competition against them.

To break the stalemate, First Austrian proposed last spring forming a consortium of

savings banks to buy out Bank Austria. But it faced considerable difficulty convincing the savings banks of the merit of its proposal.

On March 1, Bank Austria, frustrated with the delay, launched a bid for 20.4 per cent of GiroCredit at Sch370 per share.

Last weekend, at a meeting of five large provincial savings banks, it became clear that only one would reject the Bank Austria proposal.

Bank Austria has since sweetened its offer, and is offering Sch400 per share for all GiroCredit shares tendered.

Vard may agree to demands for EGM

By Karen Fossell in Oslo

Vard, the troubled Norwegian cruise and ferry group, is expected today to announce an extraordinary general meeting to consider demands of disgruntled shareholders seeking to force a sweeping reorganisation of the board to reflect recent changes in the group's ownership structure.

Shareholders have expressed dissatisfaction with the way Vard is being run, frustration over losses and claims that the board has failed to implement a strategy to dispose of assets in order to reduce the group's debt.

However, US-based Radisson Diamond is reported to be seeking to acquire one of Vard's three cruise lines for an estimated \$250m. Mr Torstein Hagen, a Vard board member and member of the board of Kloster Cruise, the group's cruise unit, is also reported to be considering a separate bid.

Mr Knut Kloster Jr, a Vard board member and chairman of the board of Kloster Cruise, was forced recently to make a large disposal of Vard shares, shrinking his stake to just over 7 per cent and thereby reducing his influence over the group.

Following the disposal, Uni Storebrand, Norway's biggest insurer, emerged as Vard's biggest shareholder, owning just under 10 per cent of the share capital.

Vard's divided board could see the exit of Mr Terje Mikalsen, chairman, Mr Kloster Jr, Mrs Trine Kloster, his mother, and close friend Mr Joergen Heje.

Mr Trygve Hegnar, a board member and second biggest shareholder - who is aligned with dissident shareholders - is said to harbour hopes of becoming chairman, while Uni Storebrand is widely expected to demand board representation.

Shareholder frustration swelled in January when a \$653m deal to dispose of two of the group's three up-market cruise lines collapsed, but became exacerbated by last month's announcement of deeper losses in 1993.

BNP hit by bad loan provisions

By Alice Rawsthorn in Paris

Banque Nationale de Paris, the French banking group that last autumn staged a highly successful privatisation, yesterday announced that net profits fell by 53 per cent to FF1.02bn (\$172.9m) in 1993 from FF2.17bn in 1992.

Mr Michel Pébereau, who last summer was appointed chairman of BNP to spearhead its sale to the private sector, had warned the stock market of the fall in profits.

Mr Pébereau said yesterday that the group had been affected "by the difficult economic environment across continental Europe, particularly in

France, our main market."

In spite of the pressures on the French banking sector, which has for the past two years been depressed by weak demand for credit, BNP managed to increase its net banking income by 4.9 per cent to FF4.146bn in 1993 from FF3.952bn in the previous year.

The group made progress in cutting costs and, like other French banks, benefited from a strong performance in market trading, notably during the summer currency crisis.

As a result, operating profits rose faster than revenue, increasing by 8.5 per cent to FF12.46bn in 1993

from FF11.48bn in 1992.

However, BNP was forced to make large provisions on its loans to corporate clients and on the fall in value of some investments, principally in the property sector.

It raised its total provisions by 43.8 per cent to FF10.81bn in 1993 from FF7.52bn in 1992. The scale of this increase was exaggerated by the absence of a FF1.58bn write-back on previous sovereign risk provisions in 1992.

BNP was forced in 1993 to make an additional writedown of FF176m on sovereign risks and raised provisions on its commercial banking business by 16.7 per cent to FF10.63bn.

Alcatel-Alsthom, the telecoms and engineering group, will today become the latest French company to take advantage of the buoyant bond market by launching a FF15bn convertible bond issue.

The group said the timing of the issue, which will involve the launch of 6.25m bonds with a nominal value of FF800, was purely opportunistic. "We'll use the proceeds to finance our long term expansion plans," it said. However, Alcatel is likely to use part of the cash to regain control of Framatome, the public-sector nuclear power group that it once controlled but in which it now has a 44 per cent holding.

Bayerische Vereinsbank climbs

By David Waller in Frankfurt

Bayerische Vereinsbank yesterday became the second largest German bank to report substantial growth in profits for 1993. The Munich-based Vereinbank said group operating profits after provisions for bad and doubtful debts increased by 32 per cent to DM1.16bn (\$687m).

The increase, more details of which will be revealed today, follows a 33 per cent increase in profits from Bayerische Hypotheken und Wechsel Bank, the other big Bavarian

bank which reported earlier this week. It means that Vereinbank's profits growth accelerated in the last two months of 1993, following a 27 per cent rise in the first 10 months of the year.

Bayerische Vereinsbank, which has just below a quarter of the domestic mortgage market, said the dividend would increase by DM3 to DM16. Half the increase is designed to pass on to shareholders the benefits of reduced corporate taxation; the other half is a special dividend to celebrate the bank's 125th anniversary

reached in May this year.

Hypo-Bank earlier this week reported that provisioning for bad and doubtful debts climbed by 31.1 per cent to DM1.16bn and warned that the bad debt situation is unlikely to improve until 1995.

The rise in provisions was offset by an increase in profits from own account trading as well as from lending business and fee income, a pattern likely to be repeated today.

Both the big Bavarian banks have a high exposure to mortgage lending business, which was buoyant last year.

Halifax will cut mortgage rate if base rate falls

By Alison Smith

Halifax, the leading building society in the UK, said yesterday that if there were a further 0.25 percentage point cut in base lending rates then it would reduce its variable mortgage rates.

Announcing a 27 per cent rise in pre-tax profits to \$966m (\$1.26bn) for 1993-94, chairman Mr Jon Foulds made it clear, however, that a cut in rates to borrowers would also mean reductions for savers. Halifax attracted \$1.1bn in retail savings last year, taking retail funds and deposits to \$51.6bn.

Hill Samuel closes life and pensions operation

By Alison Smith in London

Hill Samuel, part of the TSB group, is to close the life and pensions part of its financial services arm to new business. Most of its direct sales force will be offered jobs at Allied Dunbar, the BAT subsidiary.

In return for what Allied Dunbar called a small payment, it will have the option to recruit the 800-plus sales force. The move is a sign of much-expected rationalisation within the crowded life industry. The transfer will mean an increase in size for Allied Dunbar, which has 4,300 sales agents.

The decision marks a further step in TSB's strategy for Hill Samuel, which is to focus on its merchant banking and investment management activities.

The Hill Samuel concern will be saved the cost of attracting sales, although it will continue to service existing life and pension policyholders. The funds will be managed by its investment management arm.

In the year to October 1993, profits in the financial services business fell by \$4m to \$13m (\$30m) - in spite of higher unit trust sales - as customers switched out of life products.

Topdanmark returns to profit

By Hilary Barnes in Copenhagen

Topdanmark, the Danish insurance group, returned to profit of DKr107m (\$16m) in 1993 after losing DKr53m in 1992 and DKr273m in 1991. A dividend of DKr10 was proposed for 1993. No dividend was paid for 1992.

The return to profit was due primarily to gains on securities in the buoyant Danish bond and share market last year. Capital gains soared to DKr348m, from DKr58m in 1992.

There was an operating loss of DKr274m following on losses of DKr111m in 1992 and DKr347m in 1991.

The insurance divisions

made a profit on insurance operations of DKr107m compared with a 1992 loss of DKr50m. But after capital income profit increased to DKr372m from DKr192m in 1992.

Total premium income was unchanged at DKr3.2bn. Administrative costs were cut to DKr754m from DKr808m.

Group equity capital at the end of last year was DKr2.53bn, up by DKr100m from 1992. Total assets increased to DKr30.07bn from DKr28.72bn.

The Lauritzen shipping and shipbuilding group moved into deficit of DKr171m (\$25.5m) last year after making a net profit of DKr33m in 1992.

The group blamed weak markets for gas tankers, drilling

rigs, bulk tankers and refrigerated cargo vessels for the poor performance. It added that the European Union's imposition of quotas on bananas imported from South America and tariffs on fruit from Argentina and Chile had an adverse effect on the result of its refrigerated cargo operations.

Group sales slipped to DKr13.46bn from DKr13.96bn. There was a loss of DKr153m after net financial items compared with a 1992 profit of DKr146m. There was an extraordinary DKr110m writedown of the value of drilling rigs and only DKr8m income from the sale of ships.

The parent company, Lauritzen Holding, will pay no dividend for 1993, the group said.

AssiDomän public offer oversubscribed

By Hugh Carnegie in Stockholm

The Swedish government said yesterday its sale to the public of a 34 per cent stake in AssiDomän, the forestry group, had been more than twice subscribed.

Combined with a further 15 per cent placed with Swedish and foreign institutions, the sale will raise SKr7.6bn (\$962m).

Mr Per Westerberg, the industry minister, said he intended to go ahead with the even larger privatisation in June of Pharmacia, the state-controlled pharmaceutical group spun off last year from Procordia.

That issue could raise as much as SKr16bn at current market prices, but some doubts have been raised about the timing due to a spate of new issues in the Swedish market this year and the apparent end of a recent bull market.

Mr Westerberg said market conditions would dictate how much of the state's 45 per cent stake would be sold off this year but the intention was to dispose of the entire holding.

Some 550,000 Swedes applied for 66m shares in AssiDomän, 2.3 times the 37.5m on offer. The shares, to be listed from April 8, were priced at SKr138 for the public, a discount from the price of SKr153 set for institutions which valued the group at more than SKr16bn.

KNP slides to Fl 343m net loss

By Ronald van de Krol in Amsterdam

KNP BT, the Dutch paper and packaging group, expects to see a strong return to profit in 1994 after falling deeply into the red in 1993 as a result of heavy restructuring costs and difficult trading conditions in Europe, the company's main market.

Mr Robert van Oordt, chairman, said net profit would bounce back to at least Fl 100m (\$52.6m) in 1994 from a net loss of Fl 343m in 1993, when results were influenced by extraordinary charges of Fl 320m. In 1992, KNP BT

posted a pro forma net profit of Fl 118m.

The company, created in March 1993 out of a merger between the Netherlands' three leading paper and packaging companies, was confronted with declining demand, overcapacity and lower sales prices in Europe last year at a time when it was trying to integrate its operations.

The merger took place against the backdrop of the "deepest and most prolonged" decline in paper prices in 20 years, Mr van Oordt said.

The dividend is cut by Fl 0.10 to Fl 0.45. The company attributed the limited decline

in the pay-out to its expectations of a strong improvement ahead.

At the operating level, profit fell sharply to Fl 294m last year from Fl 538m in 1992.

Of the group's four main businesses, only the paper merchandising and office products sector managed to hold operating results at 1992 levels. The paper sector and the graphic and information systems sector reversed into operating losses, while operating profits in packaging fell to Fl 295m from Fl 366m.

Mr van Oordt said he was encouraged by increases in paper prices in late 1993.

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Jardines Highlights 1993

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Henry Keswick, Chairman
23rd March 1994

1993 RESULTS

	Year ended 31st December 1993	1992
	US\$m	US\$m
Turnover	8,424.5	7,899.5
Operating profit	362.0	335.9
Share of profits less losses of associates	467.9	362.1
Net interest expense	(5.6)	(10.6)
Profit before taxation	824.3	687.4
Taxation		
- Company and subsidiary undertakings	(66.4)	(52.8)
- associates	(93.6)	(77.8)
Profit after taxation	664.3	556.8
Outside interests	(275.5)	(240.0)
Profit after taxation and outside interests	388.8	316.8
Extraordinary items	35.2	30.7
Profit attributable to Shareholders	424.0	347.5
Dividends	(128.3)	(110.0)
Retained profit for the year	295.7	237.5
Shareholders' funds	2,720.4	2,007.3
	US\$	US\$
Earnings per share		
- basic	67.21	56.97
- fully-diluted	66.31	54.59
Dividends per share	22.00	18.70

Jardine Matheson Holdings Limited
Incorporated in Bermuda with limited liability

The first dividend of US\$15.20 per share will be payable on 10th June 1994, subject to approval at the Annual General Meeting to be held on 2nd June 1994, to Shareholders on the register of members as at the close of business on 15th April 1994 and will be available in cash with a scrip alternative. The share registers will be closed from 18th to 22nd April 1994 inclusive. The dividend will be available in United States Dollars, Hong Kong Dollars or Sterling. Shareholders on the International branch register will receive United States Dollars while Shareholders on the Hong Kong branch register will receive Hong Kong Dollars, unless they elect for one of the alternative currencies by notifying the Company's registrars or transfer agents by 20th May 1994. Shareholders whose shares are held through the Central Depository System in Singapore ("CDP") will receive Hong Kong Dollars, unless they elect through CDP to receive United States Dollars.

Marketing campaign planned for this summer will involve four show villages

Barratt more than doubled to £11.3m

By Andrew Taylor,
Construction Correspondent

The housing market recovery in the UK is gathering pace, with sales and prices expected to rise further in 1994 according to Sir Lawrie Barratt, chairman of Barratt Developments which more than doubled pre-tax profits from £4.8m to £11.3m in the six months to end-December.

Earnings per share increased from 2p to 4.4p, enabling Barratt to increase its interim dividend to 2p (1p).

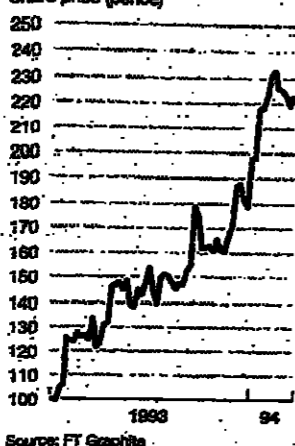
Turnover rose by 25 per cent to £218.2m (£174m). Sir Lawrie also announced the group's biggest marketing campaign, which will take place this summer and include the construction of four separate show villages to take advantage of the recovery and launch the company's new range of designs.

The Barratt chairman came out of retirement three years ago after the group began to incur heavy losses. He said yesterday that the group was on course to achieve its target of increasing production from 5,000 to 8,000 homes a year by June 1996.

Sir Lawrie will become non-executive chairman from the

Barratt Developments

Share price (pence)



Source: FT CompuLink

beginning of August. Mr Frank Eaton, chief executive, said the company was in good shape to finance its expansion with net debt of only £23.4m, including off-balance sheet loans, representing gearing of 27 per cent.

He expected sales by UK housebuilders to rise by about 10 per cent in 1994 with UK house prices rising by 7 per cent and up to 10 per cent in south-east England.

The group completed 2,302 UK sales in the half year, 14

per cent more than in the corresponding period. Operating margins rose from 6.3 per cent to 8.6 per cent.

The group said it had continued to buy land at prices which would provide satisfactory margins, acquiring 4,893 plots at an average price of £14,457 during the first half, equivalent to 19.9 per cent of the present average selling price of £72,500.

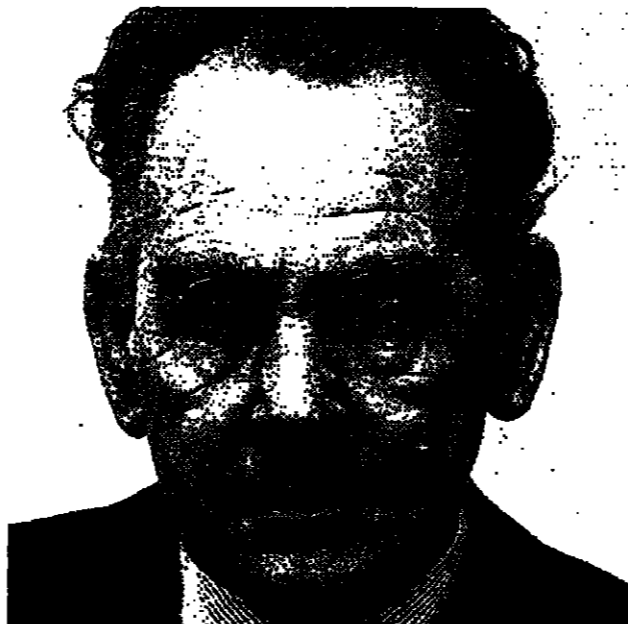
Total UK land holdings had risen by 11 per cent since last June to 15,079 plots representing 2% years supply at current production rates.

The southern Californian housing market was expected to remain much more difficult although US losses had fallen by 50 per cent to \$700,000 (\$480,000).

There was also a \$300,000 loss on leisure and time-share activities. This was more than offset by profits from commercial property sales and the group's Scottish contracting operations.

COMMENT

Frank Eaton deserves much of the credit for the turnaround at Barratt. Good housekeeping in terms of reduced costs, shrewd land purchasing and Sir Lawrie's marketing skills has



Sir Lawrie Barratt: optimistic about housing market recovery

provided UK operating margins of about 11 per cent currently. This should rise further next year, putting the group at the top end of the range for a large national volume builder. On pre-tax profits of £33m this year the group is on a prospec-

tive p/e of 20, falling to 14 times earnings of £50m in 1994-95. On this basis much of the stock's virtue is already in the price but still worth a buy if only because Barratt historically has performed well during an upturn.

UniChem advances 27% in challenging markets

By David Wighton

UniChem, the pharmaceuticals wholesaler and retailer, increased 1993 profits by 27 per cent to £37.6m, against £29.4m, despite the 2.5 per cent cut in drugs price imposed by the government in October.

Mr Jeff Harris, chief executive, described it as an "outstanding performance during a year of challenging market conditions".

In addition to the price cut UniChem faced intensified competition from rivals, notably Lloyds Chemists which is trying to build market share in wholesaling.

However Mr Harris said UniChem was losing very little business and predicted that the "crazy" discounts being offered by competitors would not last much longer.

Turnover advanced 12 per cent to £1.18bn (£1.05bn), with pharmaceutical wholesaling showing like-for-like growth of more than 10 per cent in a market which grew by about 9 per cent. Operating profits rose by 17 per cent to £40.1m, com-

pared with £34.2m, and margins increased from 3.25 per cent to 3.4 per cent.

Earnings per share rose to 17.8p (13.7p) basic or 17.3p (13.4p) fully diluted. Dividends increased 15 per cent to 6.5p (5.65p) with a recommended final of 4.3p.

The market share gain stemmed partly from large manufacturers cutting down on direct distribution and from the growth in sales to hospitals which, up 50 per cent to £44m.

UniChem estimates that the market will grow by 10 per cent this year, somewhat less than the Government's recent prediction.

The rapidly growing Moss Chemists retail chain increased sales from £79.7m to £114m generating operating profits of £6.8m (£4.9m). Operating margins slipped from 6.1 per cent to 5.8 per cent and are expected to remain flat.

In November UniChem paid £8.9m for Bradford Chemists' Alliance, a regional wholesaler. Mr Harris said a number of the

remaining regional wholesalers were interested in being acquired but added: "We will have to look at them but very few will be worth going for."

COMMENT

These figures may indeed represent an "outstanding" performance in "challenging" conditions but it must be said that UniChem has a great deal going for it. Despite the Government price cut its market showed healthy growth which is likely to continue. Its 30 per cent market share gives it a huge advantage over the dwindling band of regionals while the strong relationship between wholesaler and chemist has blunted Lloyds' efforts to poach its customers. In wholesaling there are further gains to come from depot automation and in retailing there are new opportunities as big selling prescription medicines are switched to over-the-counter. After a good run this year these strengths are better reflected in the share price which now stands at about 16.5 times prospective earnings.

W Canning falls to £2.2m but better year in prospect

By Paul Cheeseright, Midlands Correspondent

Pre-tax profits at W Canning, the Birmingham-based specialist chemicals and electronic components group, took their expected knock from a provision for bad debts and fell from £2.43m to £2.21m for 1993.

Last month Canning reported a £1.4m provision against an exposure of £1.9m at its Italian electrical components business and noted yesterday that the size of the debt "reflects the extended credit given to customers, which is normal business practice in Italy."

The difficulties in Italy obscured an improvement in the group's performance last year. Sales in fact were lower at £109.31m (£114.03m) after the sale of the French company. However, profits before the debt provision and the exceptional item associated with that sale rose from £4.04m to £4.67m.

Trading during the first 10 weeks of the current year was described as "satisfactory". Sales in and from the UK have increased, while the French and German markets, which take half of Canning's sales, have stopped declining. This year will be better than last, Mr Probert said.

The effect meant a cut in attributable earnings of £536,000, taking them down to £810,000 against £260,000 in 1992.

Basic earnings per share worked through at 2.2p (0.9p). However, adjusting for the exceptional and bad debt provisions adjusted earnings emerged at 7.8p (7.2p). A maintained final dividend of 4.35p makes a same-again 7.25p total.

Mr David Probert, chairman, said he did not feel that a reduced dividend would be justified given the strength of the Canning balance sheet and market prospects.

The difficulties in Italy

Lasmo sells Ninian interests on which company was based

By Robert Corzine

Lasmo, the independent oil exploration and production company, yesterday did the corporate equivalent of selling off the family silver.

In a deal which saw the company sell its interests in the Ninian field to Sun Oil and Ranger Oil for \$94m in cash and Sun's 20 per cent interest in the new Birch field, the management released the asset on which the company's fortunes were founded.

The Ninian sale also marked the end of the disposal programme which followed its \$1bn acquisition in 1992 of Ultramar, the event which analysts cite as being the start of the company's present troubles.

Mr Joe Darby, chief executive, yesterday said he was prepared for a negative reaction from some board members when he brought the sale before them.

It was Ninian's discovery in 1974 which transformed a venture capital company, formed in the early 1970s to look for oil at the start of the North Sea's exploration phase, into a fully fledged oil company. It was the cash flow from Ninian which allowed the company to expand, mainly through acquisition.

The board, however, thought the sale "was exactly the right thing to do," said Mr Darby. "We got excellent value

for a mature, high cost field."

The sale was the latest in a series of asset disposals the company has made recently to bolster a financial position that has been undermined by low oil prices.

Late last year it sold a package of assets, including a 5 per cent stake in its main development project, the Liverpool Bay gas field, to PowerGen for £123m.

However it has recently taken the Markham gas field off the market and Mr Darby said yesterday: "The bulk of the disposal of assets are over. There may be some swaps... but I don't see any major asset disposals this year."

Analysts say the sale of Ninian symbolises Lasmo's strategy to shift its production away from high cost reserves. These have led to the company having a cost of sales per barrel of \$8.15, compared with present sterling oil prices of about \$9.30.

Chevron, Ninian's operators, say there is scope for steady cost reductions in coming years and additional potential as technology enables companies to extract greater amounts of a reservoir. Lasmo is in a hurry, however, to implement its new low cost strategy, which it says should reduce its operating costs per barrel to \$3.70 this year, compared with \$4.10 last year and \$5 in 1991.



Bernard Matthews: company remains well placed to make further acquisitions

Bernard Matthews tops £11m

By Peggy Hollinger

Bernard Matthews, the turkey products group which has been hit by weak prices in recent years, appears to be back in full flight with annual pre-tax profits rising sharply from £3.34m to £11.3m.

Sales were 35 per cent higher at £195m for the 52 weeks to January 2. Acquisitions contributed £28m of the sales increase, leaving continuing businesses 16 per cent ahead.

Mr Bernard Matthews, the founder and chairman, said the improvement was largely due to a recovery in prices for whole turkeys and a greater focus on frozen and added value products, such as dinosaur shaped turkey meat.

"The market for whole birds

improved significantly during 1993," said Mr Matthews. "We lost several million pounds on that in 1992 and have recovered from that in 1993."

Bernard Matthews had also decreased its dependence on whole birds from 18 per cent to 10 per cent of total sales through acquisitions and new products such as cooked meat.

The group suffered substantial start-up losses in France, where it has invested between £4m and £5m in advertising its frozen products. Mr Matthews said this business was now trading profitably, excluding advertising costs. Germany was progressing and the group was "extending its distribution of value added products".

Mr Matthews said his company, which made two acqui-

sitions last year, remained in an aggressive mood. Further buys could not be ruled out.

Last year the company bought Hungary's leading turkey company for £2.5m and Turners Turkeys from Unigate for £18m. The purchases contributed £2.06m to total operating profit of £12.3m (£3.91m).

Debt rose from 9 per cent of shareholders' funds to 12 per cent as a result of the acquisitions. Mr Matthews said the company remained well placed for further acquisitions. However, he stressed any deals would be funded internally. "This company is not in the rights issue business," he said.

The final dividend is increased to 1.4p (1.25p) for a 2.5p (2.25p) total, payable from earnings up by 4.63p to 6.27p.

NEWS IN BRIEF

BARING PUMA FUND: Net income in 1993 was \$1.95m (£1.33m) and earnings per share 32.49 cents. Dividend 25 cents.

CIA GROUP: CIA Mediawork, its European holding company, has established a joint venture subsidiary in Germany, CIA Mediawork Deutschland, which will be

owned 65 per cent by CIA Mediawork and 35 per cent by Mediawork Düsseldorf. DALLGEMER is buying Jaeger Participations, a French food ingredients business, for an undisclosed sum.

EDINBURGH OIL & Gas: some 2m units, representing 57.64 per cent of the recent placing and open offer, have been

taken up or placed firm. **EFM JAVA TRUST:** Name has been changed to Edinburgh Java Trust.

EXETER PREFERRED: Amended results for the period February 1 1993 to January 31 1994 show net profit £159,000 (£219,000), after tax of £78,000 (nil). The tax charge had erroneously been excluded in the

earlier announcement. Earnings per share are 0.85p (0.94p) and revised dividend 0.85p (0.93p).

HARMONY PROPERTY GROUP: is to sell for £2.25m in cash its freehold office property, Vale House, Tunbridge Wells, Kent. The property has a currently book value of £2.09m.

INSTINET CORPORATION,

the electronic brokerage subsidiary of Reuters Holdings, announced that its Swiss affiliate, Instinet (Schweiz), had joined the Zurich stock exchange.

SANDERSON Electronics has acquired the business and assets of Nord Group from the administrative receivers for £525,000 cash.

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SCA Year-end Report 1993

SCA in brief, SEK M	1993	1992
Net sales	33,420	32,137
Operating profit	2,172	2,031
Earnings after financial net	1,210	451
Net earnings after tax	1,071	6,200
Earnings per share after tax, SEK	5.82	1.99
Dividend, proposed, SEK	3.40	3.10
Capital expenditures incl company acquisitions	2,073	2,160
Shareholders' equity incl minority interest	20,879	19,091
Net cash flow	3,209	4,767
Net debt	10,814	10,799
Equity/assets ratio, percent	47	47
Debt/equity ratio, times	0.52	0.51
Number of employees, average	26,661	29,623

¹ comparative figures for 1992 have been adjusted to reflect new issues

Forecast 1994

Earnings after financial net expected to amount to SEK 1,700 - 2,200 M, corresponding to earnings per share of 6.00 - 7.85 SEK.

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Brick	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Cement	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Concrete	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Flint	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Gravel	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Lumber	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Paint	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Plaster	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Roofing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Shingles	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tile	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Windows	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Doors	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Hardware	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tools	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Electrical	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Plumbing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Heating	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Cooling	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sanitary	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Structural	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Roofing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Shingles	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tile	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Windows	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Doors	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Hardware	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tools	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Electrical	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Plumbing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Heating	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Cooling	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sanitary	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Structural	100.00	100.00	100.00	100.00					

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	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day		
Saikobokyo Kogyo	7.0m	648	-5	Sunimoto Coal	4.5m	858	+145		
Nippon Steel	342	342	0	Sanyo Electric	538	538	0		
Hokuriku	7.0m	569	-54	Kanagaki Steel	3.1m	365	-4		
Tokyo Textiles	6.1m	410	-5	Sunimoto Mtl Ind	3.9m	279	+5		
Honsha Paper	5.1m	751	-47	Hitachi	3.7m	860	-19		

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